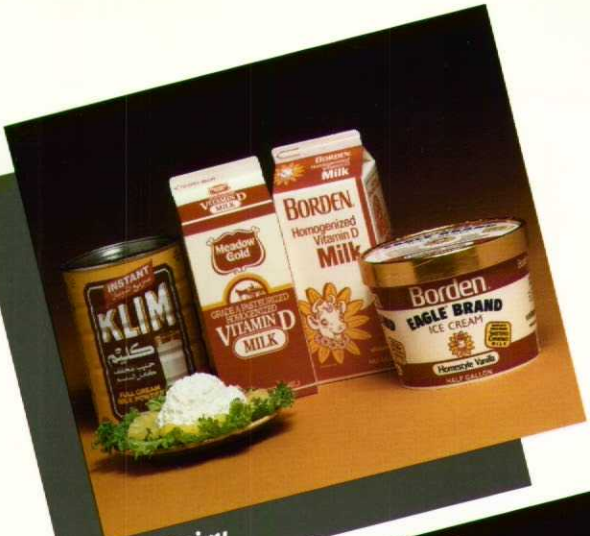
BORDEN

1986 ANNUAL REPORT



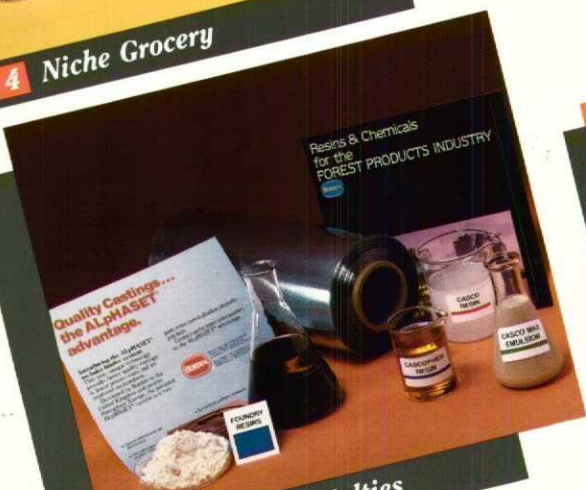
1 *Dairy*

2 *Snacks*

3 *Pasta*

4 *Niche Grocery*

5 *Non-Food Consumer*



6 *Chemical Specialties*

6 Strategic Growth Areas

Financial Highlights

(In thousands except per share and percentage amounts)

Year Ended December 31	1986	1985*	% Change
Operating Results (for the year)			
Net sales	**$5,002,097**	$4,716,172	+ 6.1
Income taxes	**166,900**	130,700	+ 27.7
Net income	**223,312**	193,804	+ 15.2
Net income per common share	**3.00**	2.50	+ 20.0
Dividends:			
Common share	**1.093**	0.987	+ 10.7
Preferred series B share	**1.32**	1.32	
Total dividends	**81,347**	76,501	+ 6.3
Acquisitions	**556,160**	66,044	
Capital expenditures	**163,017**	193,602	− 15.8
Financial Position (at year-end)			
Working capital	**$ 432,132**	$ 613,552	− 29.6
Current ratio	**1.4:1**	1.9:1	
Long-term debt-to-equity percent	**59%**	37%	
Shareholders' equity	**1,438,743**	1,407,795	+ 2.2
Equity per common share	**19.54**	18.27	+ 7.0
Common shares outstanding	**73,625**	77,016	− 4.4
Return on average shareholders' equity	**15.7%**	14.3%	

*Restated for the three-for-two stock split explained in Note 7 to Consolidated Financial Statements.

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Borden, Inc. trademarks are shown in italics throughout this Annual Report.

Letter to Shareholders and Employees

Borden had an outstanding year in 1986.

- Record sales topped $5 billion and were 6% above 1985's level.
- Net income increased over 15% to a new high of $223 million.
- On a per-share basis, earnings climbed 20% from $2.50 to $3.00 per common share.

Our operating performance strengthened as the year went on, with all four divisions contributing to the advances.

The record performance was the result of greater efficiency, higher volume in many product lines, tight cost controls companywide, lower raw material costs and acquisitions over the past two years. The Company's manufacturing, marketing and administrative efficiency was significantly improved by consolidations and by the 1985 organizational shift to a worldwide product structure.

The outlook for 1987 is equally bright:

- We expect per-share earnings to again advance about 20%.
- We expect Return on Shareholders' Equity (ROSE) to surpass the 15.7% we achieved in 1986, moving us further toward our goal of a ROSE of 20% by 1991.

To sustain this performance, we acted in 1986 to sharpen the focus of our corporate growth strategy. Over the next five years, we will direct our assets and efforts into *six strategic growth areas* – dairy, snacks, pasta, niche grocery products, non-food consumer products and chemical specialties.

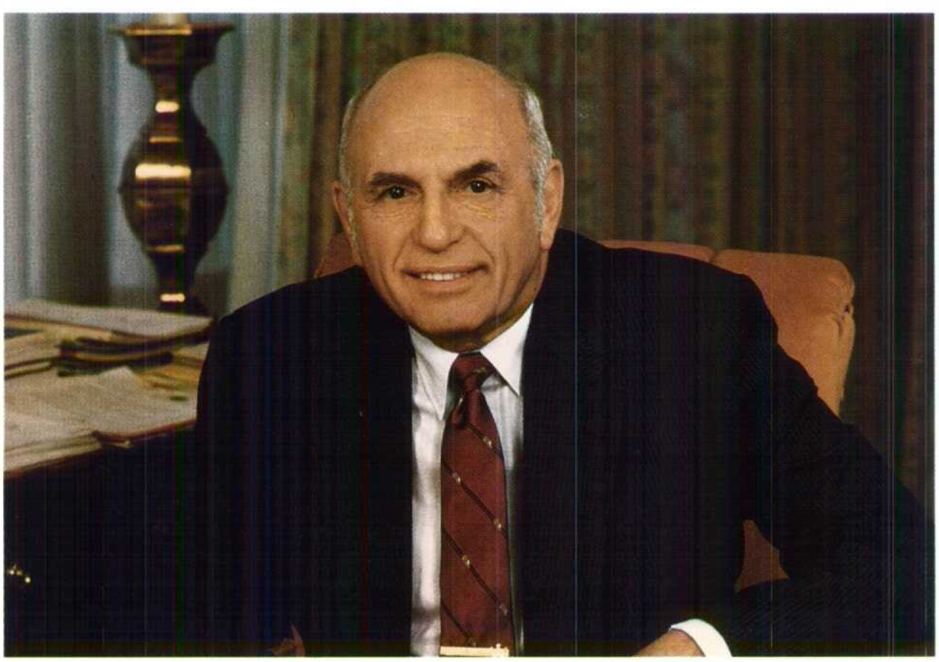
These areas – highlighted on the cover of this report and discussed in detail on the following pages – are the roadmap to our goals of higher ROSE and increased earnings per share. They are businesses we know, businesses in which we have leadership positions and businesses with solid opportunities for profitable growth.

We advanced in these chosen areas in 1986 through both internal business development and acquisitions. During the year we made 15 acquisitions costing about $560 million, more than double the dollar total for the previous five years. Many of the acquisitions were financed by recycling the assets of businesses outside our strategic growth areas. Among the highlights of 1986 were:

1. Dairy – We purchased the Beatrice dairy operations – now known as Meadow Gold Dairies, Inc. – for approximately $315 million, picking up many well-known brands and broadening our geographic reach substantially. These profitable operations will contribute about $1 billion to 1987 sales. Internally, the unique Borden technologies behind our new *Hi-Calcium* milk have given us a dominant market position; our frozen ice cream novelties and new *Eagle* brand premium ice cream are poised for growth; and we are strengthening the global reach of *KLIM* brand powdered milk.

2. Snacks – We acquired Jays Foods, a salty snacks company that gave us a solid position in the Chicago area. The July acquisition is one of the best illustrations of recycling assets – we paid for Jays with part of the proceeds from divesting the Drake Bakeries business earlier that month. We are expanding our leading snack brands, such as *Cheez Doodles* corn puffs, *Cottage Fries* potato chips and *Seyfert's* pretzels, toward nationwide distribution. And we are doing exceptionally well with our newest products, *New York Deli* potato chips and *Spirals* crispy corn snacks.

3. Pasta – We took two decisive actions in a single creative deal in December, by exchanging the Wyler Foods drink mixes business for Thomas J. Lipton, Inc.'s well-known *Pennsylvania Dutch* egg noodle brand plus substantial cash, an arrangement that fit perfectly into our pasta plan. During the year we also made three other acquisitions totaling eight more strong regional brands. We've gone most of the way,



moreover, in launching our flagship *Creamette* pasta brand across the country. Our share of U.S. branded pasta sales at the end of 1986 lifted us to first place in the industry from third a year earlier and fifth in 1980.

4. Niche Grocery Products – We added several important niche products – which we define as those with a commanding hold in their segment and a number one or number two national or regional market position – through the acquisitions of Doxsee Food Corporation and Fisher Cheese Company.

5. Non-Food Consumer – We broadened our distribution network for wallcoverings, the fastest-growing of our non-food consumer products, by bringing Isgo Corporation and A.U. Morse into the Borden family of companies. Our new *Elmer's – The Home Solution* and *Rain Dance Intensive Care for Your Car* marketing themes are attracting more and more of today's do-it-yourself consumers to Borden products.

6. Chemical Specialties – We strengthened this collection of profitable businesses with the purchase of Acme Resin Corporation, one of the U.S. leaders in foundry resins. Acme will help with the U.S. launch of *ALpHASET* and *Betaset* foundry resins, unique products developed in our U.K. laboratories.

By focusing on these chosen areas of growth, we can make Borden an even healthier, more competitive and more prosperous company than it is today – for our shareholders, our employees and the communities of which we are a part.

Toward year-end there was a change in the leadership of the Company, for only the twelfth time in our 130-year history. In September, the Board of Directors elected me Chief Executive Officer, effective November 1, 1986, and Chairman, effective February 1, 1987. I am grateful to the Directors for their expression of confidence and look forward to a constructive and productive association. As a Director, I had the opportunity to witness my Board colleagues' dedication, familiarity with Company affairs, awareness of their responsibilities and the unique perception each brought to deliberations from his or her own experience. These are strengths that I intend to fully draw upon.

I shall have the benefit, too, of a skilled and caring group of key managers, who make up our Core Management Group. These 29 executives oversee staff and line functions down to the level of corporate vice president and divisional group vice president; their responsibilities are diverse, but through the medium of the Core Group they have attained a unity and sense of identity that have added much to their effectiveness.

Our more than 37,000 employees around the world at year-end interact with customers, suppliers, government officials and the people of the communities in which we operate. It is they who represent Borden and deserve credit for the good name that has contributed so much to our success. I want to welcome into the Borden family the employees who come to us from companies acquired in 1986. The traditions and values they bring with them will be important additions to our corporate culture.

I want especially, at this time, to ask the continued support of our shareholders. They were a pillar of strength throughout the previous administration, and a source of encouragement in carrying out the changes that were necessary to adapt the Company to the new conditions of the 1980s.

I think all will understand if I reserve my deepest thanks for my predecessor, Eugene J. Sullivan, who guided and inspired Borden as Chairman and Chief Executive Officer for the past seven years. The Company he passes on to me is at the highest level of achievement in its 130 years and is a monument to his wisdom, dedication and leadership.

The development program that Gene Sullivan launched in 1980 molded a company with powerful brands in the marketplace, a sound financial position and efficient, low-cost production and distribution. His leadership enhanced our credibility with the financial community and our reputation for social and civic responsibility.

Gene continues as a member of the Board, so we will have the benefit of his experience and judgment and the pleasure of his grace and wit. On behalf of his countless friends throughout the Company, I extend our heartfelt thanks for his selfless and distinguished service to Borden over a career of 41 years.

R J Ventres

R. J. Ventres
Chairman and
Chief Executive Officer

Six Strategic Growth Areas

Borden is committed to continue enhancing shareholder wealth through higher Return on Shareholders' Equity and increased earnings per share.

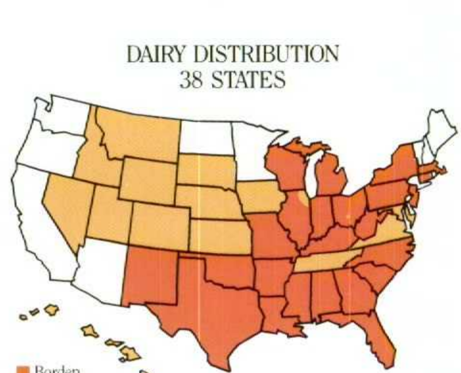
We intend to achieve these goals by focusing on six strategic growth areas: dairy, snacks, pasta, niche grocery products, non-food consumer products and chemical specialties. We already hold leading or number two U.S. positions in all six areas.

Over the five-year span of our strategic plan, Borden will become even more concentrated in consumer products than we are today, while also strengthening our profitable line of chemical specialties.

The *Borden* family of well-known, high-quality dairy products is complemented by the many prominent brands acquired from Beatrice in 1986.

1 The Borden Dairy Division has a highly efficient operation and the best distribution network in the industry. That's what enabled us to select dairy as a growth opportunity.

Even before acquiring the Beatrice dairy operations – now known as Meadow Gold Dairies, Inc. – in December 1986, Borden had the largest dairy business in the U.S., including fluid milk, ice cream, cultured products and refrigerated juices. Higher volumes lifted our dairy sales 16% over the 1981-1986 span, while operating income jumped 68%. We've succeeded by raising plant efficiency through consolidations and adding higher-mar-



gin products to our lines. We intend to improve the margins of the Meadow Gold operations in the same way we have improved our own.

Our combined dairy distribution now reaches 38 states and more than 50% of the nation's population, up from 24 states and 35% of the population. This sharply expands the market reach of the strongest and most profitable brands of both the Borden and Meadow Gold units.

Frozen novelties are one of the most profitable items in the dairy case.

The international position of *KLIM* powdered milk strengthened in 1986, while *Lady Borden* premium ice cream sustained its prominence in Japan.

We are also benefiting from new products developed internally, such as *Hi-Calcium* milk. We are capitalizing to a greater extent on the Company's valuable trademarks – for example, by using the *Eagle* brand name for a new premium ice cream. And we see a major opportunity to expand our profitable lines of frozen novelties such as ice cream bars.

We have several international dairy businesses as well (managed by the Snacks and International Consumer Products Division). In Japan, our *Lady Borden* ice cream is number one in the premium/superpremium segment. Our *KLIM* powdered milk is manufactured and sold around the world and holds the number two market position. In Denmark, *Cocio* is the leading brand of bottled chocolate milk.

A unique product formulation and Borden-developed process technology are the keys to the unsurpassed good taste of *Hi-Calcium* lowfat milk.

2 In snacks, Borden is "the national snack food company with a regional flavor." We have a store-door delivery network reaching 43 states and 80% of the population, built by acquiring eight regional snack companies. The first was Wise Foods on the East Coast in 1964; the most recent, Jays Foods in the Chicago area in July 1986.

Our snacks strategy is twofold:

- We will continue to grow through acquisitions, innovative products and local marketing initiatives. This will solidify our profitable number two position in the national market.
- We will enhance our margins through production and distribution efficiencies, by winning more share of the high-profit corn snack business and by rolling out premium products throughout our expanding network.

Jays illustrates two key synergies of a national network of regional snack companies. First, snack items that Jays formerly purchased on the outside now are made in Borden plants. Second, Jays and the other regional companies give us

the means to broaden distribution of major products. *Cheez Doodles* corn puffs, *Cottage Fries* potato chips and *Seyfert's* pretzels, for example, already are marketed well beyond their home regions.

New York Deli potato chips and the recently launched *Spirals* crispy corn snacks also are moving toward nationwide distribution. Both are innovative products of Borden technology. *New York Deli* is unmatched among the new "kettle cooked" brands, with its special fold-over chip and proprietary cooking process. *Spirals* snacks have a unique corkscrew shape that's perfect for dipping and also gives each piece extra crunch.

We have a growing snacks business outside the U.S. as well. In late 1986 we began to produce snacks in a joint venture in Malaysia; our other snacks operations are in Puerto Rico, Spain and Ecuador.

Jays Foods provides a distribution channel in the Chicago area for Borden's national snack brands, such as *Cheez Doodles*.

SNACKS DISTRIBUTION
43 STATES

New York Deli potato chips and *Spirals* crispy corn snacks are doing exceptionally well in their national rollouts; initial consumer acceptance also has been excellent for *Wise* baby popcorn.

Available in 43 states, *Creamette* is the first pasta brand to approach nationwide distribution.

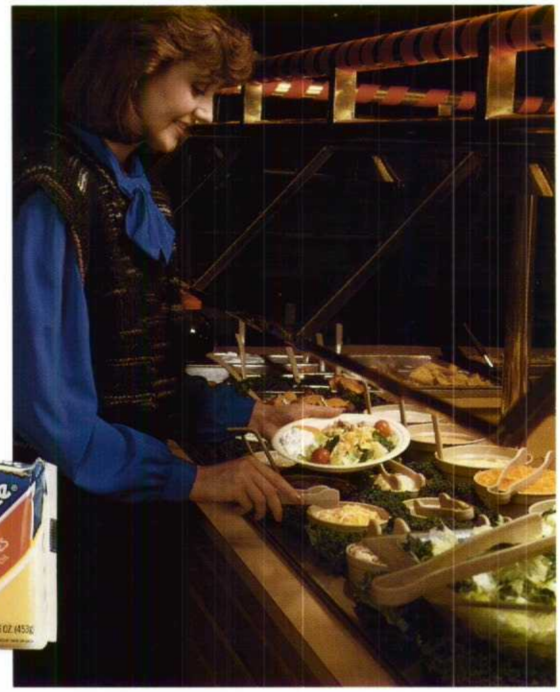
3 Borden's national pasta business likewise grew through a series of regional acquisitions, beginning in 1979 with our flagship brand, *Creamette*. We have expanded *Creamette* pasta from significant distribution in 16 states in 1979 to 33 states today, and we have introduced *Creamette* pasta and are building market share in most other states. *Creamette*, a premium priced boxed product, stands alone as the first brand to approach nationwide status.

We have an overlay of regional pasta brands as well. These have been good performers in their own regard and provide in-place distribution channels for the national rollout of the *Creamette* brand. At the start of 1986, Borden had four regional brands – *Luxury, Ronco, Vimco* and *Anthony's* – each a leader in its area. We acquired nine more strong regional brands during the year: Chicago's *Mrs. Grass*; *Globe A-1* in California and Arizona; *R&F, Red Cross* and *New Mill* in the Midwest; *Gioia* and *Bravo* in the Northeast; *Merlino's* in the Pacific Northwest; and *Pennsylvania Dutch* on the East Coast. Considering all of these regional brands together, we blanket most of the nation.

Borden enters 1987 as the nation's largest pasta company. We also are number one in the world, combining the *Adria* brand operations in Brazil and *Creamette* brand sales in Canada with the U.S. business. We intend to sustain our momentum within an industry that shows solid and steady growth.

Nine regional brands in various parts of the U.S. joined the Borden pasta family during 1986.

More than half of Fisher's substitute cheese is marketed to the foodservice industry, with the balance sold at retail.



4 Our strategy for Borden's grocery products stems from our product diversity and changes under way in the marketplace. There is fierce competition for shelf space: New products have trouble *getting* on and lesser brands have trouble *staying* on.

Borden's great strength is a stable of small- and medium-sized niche grocery businesses, such as the *ReaLemon, Cracker Jack* and *Bama* brands. Each ranks number one or number two nationally or regionally and thus can command shelf space. We plan to expand our hold on today's profitable niches and develop or acquire more niche leaders.

Two 1986 acquisitions illustrate this strategy:

- In August we bought Doxsee Food Corporation, whose broad line of clam products complements our *Snow's* product line. The acquisition allowed significant production efficiencies through plant consolidations. Doxsee also moved us into the pure maple syrup niche, where its *Cary's* brand is number two nationally.
- We strengthened our position in the substitute cheese niche by acquiring the Fisher Cheese Company business in November 1986. Substitute cheeses are increasingly used in health-conscious homes and fast food outlets and by processors of frozen entrees such as pizza. Borden – a pioneer in the business – now is the leader in the substitute cheese market.

Each of these niche grocery products holds a number one or number two national or regional market position.

One of Borden's major strengths in wallcoverings is its collection of strong brand names.

5 Non-food consumer products, the next area targeted for growth, include the *Elmer's* line, spray paints, car care products and wallcoverings.

Since acquiring Crown/Sunworthy in 1985, Borden has been one of the world's largest producers of wallcoverings, the fastest-growing of these businesses.

We have several clear advantages in wallcoverings. First, our captive source of vinyl gives us the lowest raw material costs. Second, we have some of the best-known brand names: *Wall-Tex* and *Satinesque* in the U.S., *Sunworthy* in Canada and *Crown* in the U.K. Third, the trade considers our designs to be the most innovative and varied.

A fourth advantage is distribution. When Borden acquired Crown/Sunworthy, we gained its first-rate U.S. and Canadian distribution network as well as its brands. We further expanded our reach with the October 1986 acquisition of Isgo Corporation, a leading independent distributor in the Central states, and the December 1986 purchase of A.U. Morse, a major West Coast distributor.

Wallcoverings and our other non-food consumer products share a key characteristic: Each is widely used in the do-it-yourself market, which is large today and expected to grow rapidly in coming years.

The *Rust Magic* brand holds a significant share of the market for rust-inhibiting spray paints.

6 Our sixth growth area is chemical specialties, where Borden is directing new investments into high-margin, value-added businesses such as industrial specialties, forest products resins and film products.

The June 1986 acquisition of Acme Resin Corporation – a major supplier of phenolic resins



At Borden's Southampton, England, research center, *Betaset* foundry resin coated on sand (left) is hardened with a cold gas (center) to produce a sand mold or core for metallic castings (right).

to the foundry industry – expanded our prior stake in that part of the industrial specialties business. Just as important, Acme enabled us to capitalize quickly on new Borden technology. Its ready-made sales and technical force, already plugged into our customers, gave us a two-year lead in introducing *ALpHASET* and *Betaset* resins. These patented ester-cured resins, developed by Borden in the U.K., enable foundries to make sand casting molds faster and with less energy.

In forest products resins, Borden probably has the widest range of specially-formulated adhesives of any company, including liquid and dry phenolics for oriented strandboard, the forest products industry's fastest-growing item. The business is cycle-resistant for Borden thanks to our market leadership, an overwhelming advantage in plant location and an enormous purchasing leverage that keeps costs in line at any point in the economic cycle.

Our film products also are U.S. leaders. *Resinite* film is the top polyvinyl chloride (PVC) packaging film for in-store wrapping of meats and produce. With *Proponite* film, Borden is one of only four major U.S. producers of oriented polypropylene film, the successor to cellophane. We are a leading manufacturer of pallet-wrap film from PVC and low-density polyethylene. And outside the U.S., Borden has major positions in film in Europe, Canada, Japan, Australia and Argentina.

Our chemical specialties have performed well. We intend to build them and do even better.

Borden's strategies for all six growth areas are ambitious, and our business foundations are solid in each one. We have the financial resources – and, even more important, we have talented and dedicated Borden people – to sustain the progress we have already achieved.

At Borden's North Andover, Mass., facility, rolls of *Proponite* film for snack food and other packaging uses are protected for shipment with *Loadmaster* pallet-wrap film. *Resinite*, the Chemical Division's largest film product, is used for in-store food wrapping as well as pallet-wrap applications.

Dairy Division

	1986	1985
Sales (in Millions)	**$1,331.1**	$1,248.2
% of Total Sales	**26%**	26%
Operating Income (in Millions)	**$79.1**	$73.8
% of Total Income from Operations	**16%**	18%

Frozen novelties are growing 15% per year industrywide.

The Dairy Division posted record sales and operating income in 1986 – the third consecutive year of improved performance. Operating income rose 7.2% over 1985, on a sales rise of 6.6%. Fluid milk volume was up 4%, double the industry's gain, while ice cream volume advanced slightly in step with the industry.

Profit margins held at the strong level achieved in 1985. The division continued to benefit from greater efficiencies in manufacturing and distribution, higher-margin new products and tight cost controls.

In December 1986, Borden acquired BCI Beatrice Dairy Products, Inc. for approximately $315 million in cash. Included in the purchase are 31 facilities in 19 states and well-known trademarks such as *Meadow Gold* milk, *Viva* lowfat dairy products, *Louis Sherry* ice cream, *Mountain High* yogurt, and *Hotel Bar* and *Keller's* butters. The unit will initially operate on a stand-alone basis within the Borden Dairy Division.

The acquired operations – now known as Meadow Gold Dairies, Inc. – are expected to add about $1 billion to Borden sales in 1987. They extend Borden's market reach from 24 to 38 states (principally adding Midwest and Far West states), so that quality Borden products are now available to more than 50% of the U.S. population.

Fluid milk sales in 1986 again trended toward the lowfat segment for Borden and the industry. In contrast to a slight sales increase for whole milk, the division's lowfat brands posted a double-digit rise. *Hi-Protein* milk, the number one premium lowfat brand in the country, had a particularly strong advance.

In cottage cheese, significant gains for the *Borden* and *Lite-line* brands led to growth that outpaced

Eagle brand premium ice cream is the newest of Borden's brands, now the largest-selling ice cream product line in the U.S.

the industry. Sharply higher sales of sour cream and sour cream dip reflected growing demand from foodservice customers. A three-pack *Lite-line* yogurt did well in Florida test markets.

Hi-Calcium milk was successfully test marketed in 1986 and will roll out to the South West, South East and Northern markets in the first quarter of 1987. Borden was the leader in introducing calcium-fortified milk in the U.S. in response to the growing public concern over calcium-deficient diets that can result in the crippling disease, osteoporosis. One 12 oz. glass of *Hi-Calcium* lowfat milk provides 100% of the U.S. Recommended Daily Allowance of calcium. Patents are pending on the unique formulation of *Hi-Calcium* milk and the manufacturing technology.

Scheduled for introduction early in 1987 are additional products fortified with calcium, such as cottage cheese and yogurt. Dairy products sweetened with aspartame have been developed and will be marketed soon after the U.S. Food and Drug Administration's approval, expected in 1987.

New novelty and premium brands highlighted the ice cream business in 1986. Borden's new *Frostick* bars, for example, helped to boost novelty sales considerably. Specialty frozen novelties for the entire division are now produced at the Houston, Texas, facility, which went into operation in late 1985. Targeted for introduction this summer are *Cracker Jack* ice cream bars, which combine premium ice cream with world-famous *Cracker Jack* confection in the ice cream and coating. Other premium novelties under development include several aimed at adults.

The exciting launch of *Eagle* brand ice cream also began in 1986. Though available only in homestyle vanilla, *Eagle* brand ice cream

Store-door delivery adds to the profitability of Borden's growing business in refrigerated juices.

achieved broad distribution and strong consumer approval in its test markets – and outsold comparable multiflavor brands. Early in 1987, *Eagle* brand ice cream will be expanded to all division markets and offered in additional varieties.

Plant consolidations once again raised production efficiency throughout the division. In one series of steps, production of ice cream, cultured products, orange juice and cottage cheese was shifted among four plants in Mississippi, Louisiana and Texas; several were expanded and modernized while one was closed.

In April 1986, Borden acquired the business of Midwest Dairy in Shreveport, La., and its production was then consolidated at four existing Borden plants in the state.

Capital spending projects during the year included expanded milk vaults at four locations and a new distribution branch in Tallahassee, Fla. Plans are under way for a new milk plant at Austin, Texas, and modernized materials handling equipment at the Columbus, Ohio, and Detroit, Mich., facilities.

Local promotional efforts continue to position Borden as a good corporate citizen and to provide opportunities for product sampling by the public. For example, Borden sponsored Old Fashioned Ice Cream Socials around the country to raise money for local civic and charitable organizations. Much of the division's other promotion and advertising in 1986 also had a strong local flavor. Promotions were developed with key customers, and local advertising was created for these promotions and the other needs of individual markets.

The featured participant at over 250 events was *Elsie the Cow*, who celebrated her 50th anniversary year as the division's quality symbol and spokesperson. *Elsie* intermingled her trade and customer appearances with visits to children's hospitals, schools for the handicapped and civic events. As she starts her second half-century of service in advertising, merchandising and public relations, *Elsie* already appears on more food packages than any other symbol.

Borden holds a leadership position in the U.S. cottage cheese market.

Snacks and International Consumer Products Division

	1986	1985
Sales (in Millions)	**$1,035.6**	$980.8
% of Total Sales	**21%**	21%
Operating Income (in Millions)	**$114.0**	$87.5
% of Total Income from Operations	**23%**	22%

Division operating income in 1986 advanced 30.4% on a sales rise of 5.6%. The gains were even greater after excluding the effect of acquisitions and divestments.

The regional Drake Bakeries operation was sold in July 1986 so that Borden could focus its financial and other resources on salty snacks. Later that month, Borden acquired Jays Foods Inc., a Chicago-based salty snacks producer. The U.S. and Canadian Old London business, which produces melba toast and other baked products, was divested in mid-December.

Domestic sales for the division totaled $625.4 million, up 0.9% from 1985, and operating income rose 23.7% to $51.1 million. New products, plant consolidations, volume growth and favorable commodity prices all benefited performance.

Division international sales were $410.2 million, an increase of 13.6%, while operating income rose 36.4% to $62.9 million. The whole-milk powder export business continued to do well, and favorable foreign exchange rates helped nearly all of the European and Far East businesses to show marked improvements.

DOMESTIC OPERATIONS

Snacks

Sales increased 15% to an all-time high on the strength of the Jays acquisition, new product successes and solid growth on the established business base. Operating income jumped 55% due to favorable commodity prices, production efficiencies and sales growth. Record marketing expenditures were 23% ahead of the prior year.

Jays is the eighth regional company in Borden's expanding snacks universe. Its strategic location opens to Borden the important Chicago market. Since joining Borden, Jays has edged into the number one position in this region. Borden-made products now supply all items in the *Jays* line except for potato chips and popcorn, which Jays makes itself. The benefits have exceeded expectations. Sales volume of Borden corn-based products has tripled compared to the volume formerly sold from other suppliers, for example.

New products such as *New York Deli* kettle-type potato chips also raised sales. The *New York Deli* brand grew more than 85%. The product is in full distribution on

The Borden snacks universe is built on eight regional brands that reach a total of 43 states.

the East Coast and reaches markets in the Midwest and Southwest as well (26 states in all). The *New York Deli* unique fold-over chip and proprietary cooking process are complemented by an award-winning package design – purple with a glowing neon sign logo.

Sales of new *Wise* baby popcorn more than doubled as distribution expanded into 26 states. The high-quality product capitalizes on consumer interest in popcorn's better nutritional value, higher fiber content and lower calories than most other snacks.

Spirals crispy corn snacks, featuring a unique corkscrew shape for dipping and extra crunch, have added to Borden's share of the high-margin corn snack business. The product entered test markets early in 1986, later expanded to four states and will roll out to more areas this year.

Since the purchase of Seyfert Foods in 1982, its pretzel brand has been introduced throughout the Borden network and multiplied fourfold in dollar sales. Full-year production for the Jays region in 1987 is expected to help increase Borden-manufactured pretzels volume by about 30%.

A high-technology potato chip fryer and advanced heat exchangers were installed during 1986 at Wise Foods' Berwick, Pa., facility. Berwick is the largest of Borden's 12 snack plants across the nation. Through consolidations and five significant expansions in recent years, Borden Snacks has become an effective, low-cost producer with considerable capacity for growth.

The unit also has achieved distribution cost savings amounting to 1% of sales by taking advantage of "backhaul" opportunities, i.e., generating revenues by carrying freight for others back toward Borden snack plants, in trucks that would otherwise return empty from their delivery areas.

Coco Lopez Sales

The Coco Lopez Sales unit distributes the world's best-selling brand of cream of coconut. Manufactured in Puerto Rico by Industrias La Famosa, the *Coco Lopez* brand further penetrated European Common Market regions in 1986 and also entered the Japanese market.

In the U.S. foodservice industry, *Coco Lopez* outsells all other brands by two to one. Share rose in 1986 as a result of special marketing programs that overcame early-year sales losses related to low-priced imports. *Coco Lopez* cream of coconut holds a 55% market share in U.S. supermarkets, where newly available frozen products have intensified competition. Though total sales for 1986 were down, monthly volumes had recovered by year-end and were showing double-digit increases.

Puerto Rico

An improved sales mix and cost reductions led to 24% higher operating income on only a 6% sales gain. Income advanced in all three profit centers: Borden Puerto Rico, Caribbean Snacks and Industrias La Famosa.

Borden Puerto Rico markets Borden's grocery and non-food consumer products, cheeses and frozen snacks throughout the Caribbean. It also distributes fresh and frozen meats and selected non-Borden products. Caribbean Snacks introduced eight new products under its *Filler* brand as well as a full line of single-serve cookies and candies. Industrias La Famosa produces juices, nectars and tomato sauce in addition to *Coco Lopez* coconut products.

Seyfert's pretzels and *La Famous* tortilla chips are expanding throughout the Borden snacks distribution universe.

Industrias La Famosa in Puerto Rico produces a broad range of juices and nectars as well as the *Coco Lopez* family of coconut products.

INTERNATIONAL CONSUMER PRODUCTS OPERATIONS

Milk Powder

Nearly all of the worldwide milk powder operations were restructured into one administrative unit in 1986 to enhance management direction and the transfer of technology and marketing expertise.

Export – In contrast to a world market decline, Borden export volumes in 1986 increased by more than 11% to a record level, reinforcing the number two world ranking of *KLIM* powdered milk. Dollar sales were up 19%, and operating income rose, both to new highs. The *KLIM* brand grew strongly in established markets such as Taiwan, Malaysia and Zaire, and it opened or re-opened markets in the Philippines, El Salvador and Egypt. Programs under way to adapt *KLIM* powdered milk to varied consumer end uses promise to stimulate 1987 sales. Exports are supplied from plants in Denmark, Ireland, Australia and New Zealand.

Latin America – A substantial share of *KLIM* brand sales is generated by local plants for local markets, principally in Colombia and Panama. Though volume in Colombia was down marginally for 1986 overall, aggressive pricing and stepped-up spending on advertising and promotion restored an upward trend by year-end both for volume and market share. Dollar sales were lower in 1986 because price increases could not offset devaluation of the local currency versus the dollar. A flavored powdered milk product similar to a milk shake has been successfully launched under the *El Rodeo* brand. Sales in Panama, where the *KLIM* brand is universally used for milk powder, were strong in 1986.

Europe

Foods-Spain – The Gallina Blanca affiliate registered its best year ever in 1986. Soup and bouillon sales in Spain rose 18%, and income advanced 34%, benefiting from a new line of premium soups and dehydrated dishes and an extensive advertising program. International sales and income posted even greater gains. This largely reflected further development of the West Africa region, including the introduction of new products such as fish flavored bouillon cubes under the *Jumbo Cube* brand.

Snacks-Spain – Recovering from weakness that hurt the entire industry in 1985, Borden's Crecspan unit grew in 1986 by 16% in salty snacks and 13% in cakes and croissants. The *Caseras* brand of

Gallina Blanca's soup and bouillon mixes have a commanding market share in Spain and are growing substantially in export sales.

Borden manufactures snacks outside the continental U.S. in Puerto Rico, Spain, Ecuador and Malaysia.

thicker potato chips (launched in late 1985) quickly won a substantial share of market. Increased advertising, cost reductions and lower product returns also contributed to the year's improvement.

Bakery-West Germany – There was improvement in 1986 both for Weber, the nation's largest commercial bakery under one roof, and Nur Hier, a chain of retail bakeries in the Hamburg area. The Weber unit nearly doubled its operating income as sales rose 41%. To reduce costs, Weber discontinued unprofitable distribution depots and delivery routes and also refined its product mix. The Nur Hier operation (acquired in 1985) added 15 stores to its chain of corner bakeries, now totaling 88, and refurbished several outlets. Sales advanced 7% even though the local population was declining.

Foods-Belgium – The Belgian bakery unit again added a point to its commanding share of the waffle market, in the face of an industrywide softening of demand. Results were particularly good in the second half following a reorganization of sales and distribution channels. The unit is actively pursuing opportunities to sell its *Suzy* brand waffles in the U.S. and other nations.

Latin America

Snacks-Ecuador – The consolidation of potato chip and corn chip companies purchased in 1984 and 1985 was completed during 1986. The resulting Nutrinsa operation posted 37% higher sales in local currency, reduced to a 7% rise in U.S. dollars because of local currency devaluation. Operating income was up 20% in dollars. Nutrinsa has attained an 85% share of the potato chip market and 45% in corn snacks. Additional product flavors and forms were introduced, including two types of pork rinds.

Far East

Both consumer products and chemical operations are included in the Far East administrative unit. Coordination of the chemical operations was centralized during

1986 in a new Singapore office to help expand their business focus to the entire Far East.

Australia – Volumes rose in both the *Resinite* film and the resin/petrochemicals segments, even though the Australian economy was soft throughout 1986. U.S. dollar sales were unchanged from 1985; operating income nevertheless increased strongly, reflecting plant rationalization and headcount reduction. Among the new markets entered were melamine resins for moisture-resistant particleboard, phenolic resins for laminated veneer lumber and refractory binders, and *ALpHASET* foundry resins. A new phenolic resins plant rated at 10,000 metric tons per year was commissioned in July 1986 at Melbourne, replacing a less-economical facility.

Malaysia – A rebound in the nation's plywood industry lifted resins sales volume substantially, offsetting much of the volume lost in 1985/1986 when Indonesia curtailed and then barred imports of resins. Borden is the leading supplier to the Malaysian plywood industry with over 40% of the market.

A new snacks company – Borden Foods (Malaysia) Sdn Bhd – has been formed as a joint venture with Fraser & Neave of Singapore. Producing snacks for sale under the *Wise* brand, the company started up in the fourth quarter of 1986.

The Philippines – Despite unsettled political conditions and an economic slowdown, Borden dollar sales improved over 1985 on the strength of a significant volume increase in phenolic resins for the plywood industry. An expansion of phenolic resins capacity is planned.

A central bakery provides fresh-baked goods several times daily to Borden's Nur Hier chain of retail stores in Hamburg, West Germany.

Japan – *Lady Borden* ice cream posted improved operating income in 1986 along with a new high in dollar sales, up 43%, helped greatly by the strengthening of the yen. The *Lady Borden* and *Borden Homemade* brands hold nearly 70% of the premium ice cream market, more than triple the share of the closest competitor. New premium novelties and superpremium ice cream under the *Lady Borden* "Excellence" brand were successfully launched in March.

Meiji-Borden, a cheese joint venture, posted 9% greater volume with support from aggressive advertising and sales promotion. Dollar sales and income jumped by 36% and 87%, respectively, largely due to the stronger yen.

Hitachi-Borden, a joint venture producing *Resinite* film and also car waxes, benefited from higher consumer demand for film products and achieved record sales volume. Dollar sales rose 54%, while operating income quadrupled as lower raw material costs and improved product mix added to the positive currency effect.

Grocery and Specialty Products Division

	1986	1985
Sales (in Millions)	**$1,192.4**	$1,133.7
% of Total Sales	**24%**	24%
Operating Income (in Millions)	**$168.7**	$137.6
% of Total Income from Operations	**34%**	35%

Borden is among the nation's leading makers of clam products, sold under the *Doxsee* and *Snow's* brand names.

Each of the division's business groups contributed to the 1986 increase of 22.6% in operating income. The 1986 sales gain of 5.2% was led by higher sales for the Pasta Group.

Confection and Main Meals

Group operating income rose 29% on marginally higher sales.

The cheese business paced the group's performance with a 13% sales gain, and Borden strengthened its number two position in the processed cheese segment. *Borden* single wrap slices grew 9%, almost twice its category rate. The *Lite-line* brand remained number one in the diet/health category with a 43% market share, 1½ times the size of its closest competitor. A jalapeno flavor of *Lite-line* cheese product was introduced nationally in 1986, while *Borden* "Light" single wrap slices and a loaf product entered test markets.

Building on the group's existing position in substitute cheeses, Borden purchased the Fisher Cheese Company business in November 1986. Its *Sandwich-Mate* brand is the leading type of substitute cheese slices, and its family of shredded substitute cheeses moves Borden into a new, fast-growing market niche. The acquisition strengthened Borden's position in the foodservice industry – an expanding area for Borden overall – which accounts for more than half of Fisher's substitute cheese sales.

The chowder and clam business was similarly enhanced by an acquisition. Doxsee Food Corporation was purchased in August 1986 to complement the *Snow's* line. Borden now is the number one U.S. producer of both premium clam chowder and clam juice and ranks second in minced and chopped clams.

Wyler's reinforced its position in 1986 as the largest selling brand of bouillon, benefiting from merchandising and consumer promotion activities.

Mrs. Grass, Inc., acquired in March 1986, produces a variety of dehydrated soup and dip mixes (as well as pasta) and contributed positively to sales and income.

Volume sales of *Cracker Jack* brand candied popcorn were up about 9%, reflecting a *Snack Pack* size introduction and increased marketing support. Using a brand-new promotional concept, several major department stores tied *Cracker Jack* product sales to their own in-store merchandising.

Desserts and Beverages

Operating income advanced 6% on a sales total about the same as in 1985.

Eagle brand sweetened condensed milk posted slightly higher sales and continued to be a key contributor to group income. After 129 years, the Company's first product still satisfies consumer needs for a convenient, good-tasting dessert maker.

Cremora non-dairy creamer picked up market share during 1986. Its unique plastic jar, consumer incentives and additional retailer support were all part of the product's success. Both private label and industrial powdered creamer sales were also ahead of the prior year.

None Such mincemeat volume and dollar sales continued strong, in part because of support from Borden's annual "Home for the Holidays" promotion.

Sales of *Kava* 90%-acid-neutralized coffee increased. New *Kava* packages and graphics are stimulating consumer interest and improving retailer visibility. Candy sales, principally under the *Haviland* brand name, were slightly below the prior year due to product line adjustments and competitive price pressures.

The Wyler Foods drink mixes business was divested in December, as part of an asset exchange with Thomas J. Lipton, Inc.

Borden acquired these four of today's 13 regional pasta brands during 1981-1985.

Canada

Canadian sales held steady and operating income was up, as *Eagle* brand sweetened condensed milk and *ReaLemon* reconstituted juice both performed well. Programs to expand in non-food consumer products achieved major sales and distribution gains with key Canadian retailers for *Elmer's* brand products and *Rain Dance* car care items.

Pasta

The Pasta Group grew by 36% in sales and 25% in income in 1986. While acquisitions played a major role in sales growth, the flagship *Creamette* brand benefited from aggressive expansion programs, and higher sales of the *Luxury* and *Ronco* regional brands also contributed.

Four major acquisitions totaling nine brands were completed in 1986:

- In March, Mrs. Grass, Inc., which has the leading noodle brand in Chicago, became part of Borden.
- Western Globe Products of Los Angeles was acquired in September. *Globe A-1* pasta is a leading brand in California and Arizona.
- In November, Borden acquired the pasta companies owned by a U.S. subsidiary of Ranks Hovis McDougall PLC. The acquisition included the *Gioia* and *Bravo* brands, which are market leaders in upstate New York, produced in Buffalo; *Ravarino & Freschi, Red Cross* and *New Mill*, which are leading brands in the Midwest, produced in St. Louis, Mo.; and the *Merlino's* brand, produced in Seattle, Wash.
- Finally, as part of the asset exchange with Lipton, Borden acquired the *Pennsylvania Dutch* egg noodle brand. While sales are principally focused in key East Coast markets, *Pennsylvania Dutch* is the leading noodle brand nationally and an excellent complement to expansion plans for the *Creamette* brand.

As a result of the growth of the core pasta brands and the 1986 acquisition program, Borden is now the national leader in the branded retail pasta business.

To meet growing production requirements, a major expansion program was completed at Phoenix, Ariz., in 1986. A production line was also added at the Minneapolis, Minn., plant.

Specialty Products

Group income surged 23% on slightly higher sales.

The Industrial business unit produces citrus concentrates and

Patented *Borden-Caps* encapsulated flavors offer substantial economies to food and pharmaceutical processors.

oils, cheese powders and concentrates, substitute cheese, and liquid and dry flavors for sale principally to other food processors. Excluding the results of can manufacturing operations divested in late 1985, sales were level in 1986, while income advanced 31%. New products developed in Borden laboratories accounted for nearly all of the income improvement.

The Galloway-West operation produces custom formulated milk items, cheese starter media, Swiss cheese and milk protein concentrate for other food processors, as well as aseptically canned *Borden* egg nog for retail sale. Income increased 22% even though lower milk prices reduced dollar sales.

In Fruit Products, *Bama* jams and jellies remained the top-selling products in their Southern and Southwestern market regions. Volume increased despite lack of industrywide growth in the category. Sales were up for *ReaLemon* reconstituted juice, and market share attained a five-year high.

The recently formed Oil Products business unit includes the foodservice salad dressings and mayonnaise operations of Doxsee and Daifield, Inc. (the latter is a Cramerton, N.C., producer acquired in October 1986) and the *Cary's* pure maple syrup and *Bennett's* sauces and marinades businesses of Doxsee. Early results have been encouraging and suggest good growth potential, both through branded retail sales and foodservice channels.

Home & Professional Products

New highs were recorded both for sales volume, up slightly from 1985, and operating income, which showed an 11% gain.

Elmer's brand income was well ahead of its prior record. Profitable

Contact cement is one of almost 50 do-it-yourself home repair products in the *Elmer's – The Home Solution* line.

products such as white, school and carpenter's glue maintained their market shares and distribution. Complementing this were successful new products in the rapidly growing, do-it-yourself building adhesives segment. A new *Elmer's – The Home Solution* logo was unveiled during the fourth quarter and will be used extensively in 1987 to support retail sales.

Krylon brand income rose to an all-time high even though sales were slightly down from 1985's record level. The aerosol paint industry lost volume in 1986 largely because of retailer consolidations. *Krylon* paints remain number one in consumer awareness and share of the decorator paint market, while the *Rust Magic* spray paint line continued to add distribution channels and strengthen its position.

Sales of car care products rose 14%, and income climbed 39%, for the most part reflecting good performance by the *Rain Dance* family. *Rain Dance* wax was especially strong, increasing its market share by 34%. Eight new *Rain Dance* products will join the line in 1987, including a unique spray for protecting velour upholstery; the product also has application in the home for furniture and carpet protection. A new *Rain Dance Intensive Care for Your Car* strategy is spotlighting the broad line of premium *Rain Dance* products to consumers and retailers.

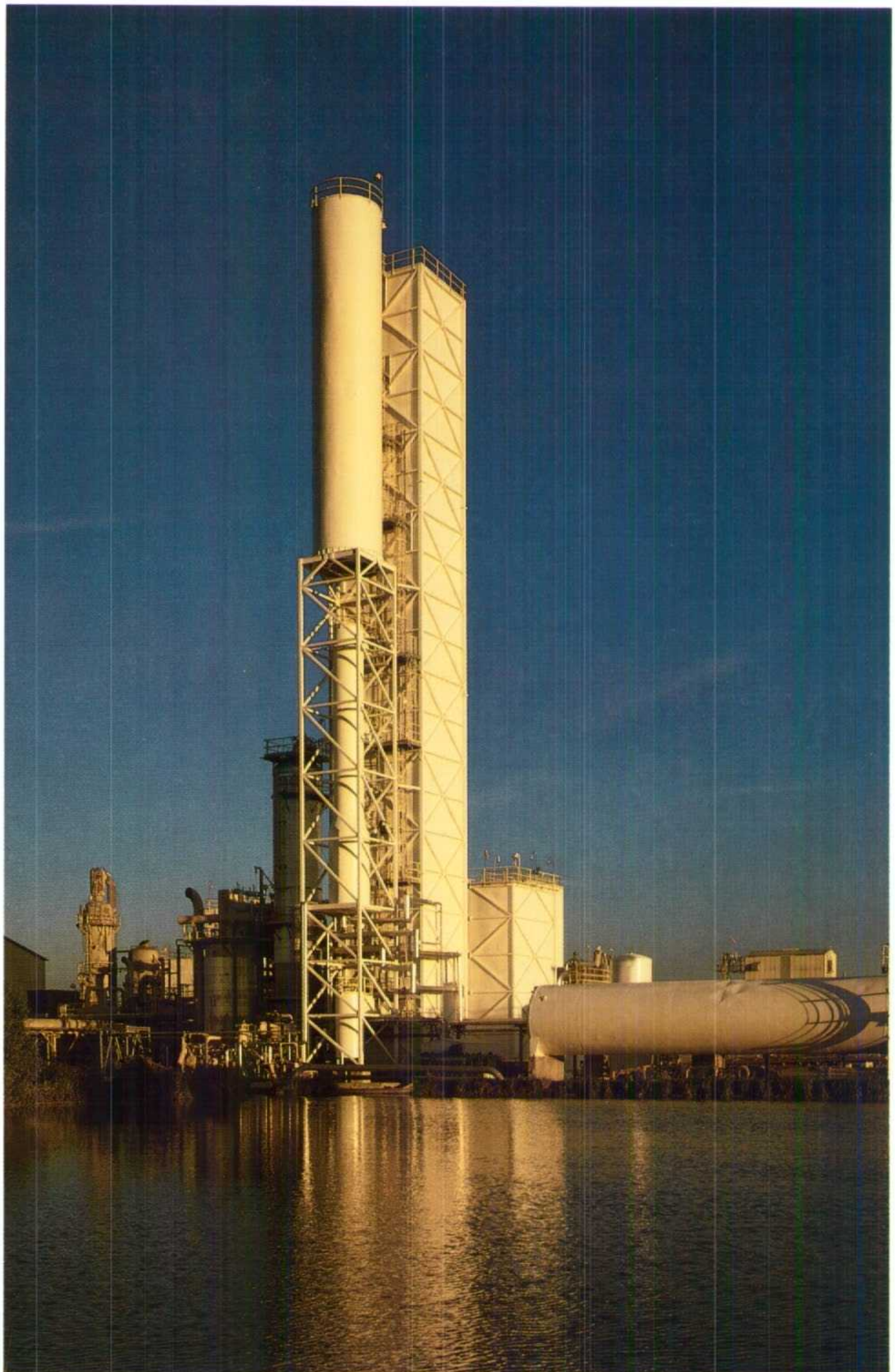
The *Rally* and *No. 7* brands also gained market share. A value-priced *Rally* car wax has been introduced for 1987, and the *No. 7* brand is adding both a super-strength fuel injector cleaner and a valve protector/lubricant.

The *Sterling* line of plastic school and office supplies registered higher volume and income, bolstered by a new line of desk accessories and file boxes in fashion pastel colors. Savings in packaging costs, other productivity improvements and stable raw material costs also contributed to the year's success.

Borden offers a broad range of car care products under the *Rain Dance, Rally* and *No. 7* trademarks.

Chemical Division
Domestic and International

	1986	1985
Sales (in Millions)	**$1,443.1**	$1,353.5
% of Total Sales	**29%**	29%
Operating Income (in Millions)	**$137.1**	$98.6
% of Total Income from Operations	**27%**	25%



A new air-separation unit at Geismar is one of the division's latest investments to reduce operating costs and improve product quality.

Division operating income advanced 39.0% in 1986 as sales rose 6.6%. For the domestic segment, income of $109.8 million was up 37.4% from the prior year, and sales of $1,045.0 million were 4.7% ahead. International income was $27.3 million, an increase of 45.8%, while sales rose 12.1% to $398.1 million.

DOMESTIC OPERATIONS

Thermosetting Resins

Resins & Chemicals – Operating income surpassed the previous record of 1985, reflecting a new high in volume and tight cost controls. Dollar sales declined, however, as lower costs for raw materials were passed through to customers in product prices.

The volume increase partly stemmed from strength in the U.S. building products sector, which stimulated demand for formaldehyde-based urea and phenolic resin adhesives. Aggressive sales efforts and new wood products resins helped Borden to grow faster than the industry and strengthen its position as market leader.

There were also volume gains in products sold to the fertilizer industry, such as formaldehyde derivatives for slow-release fertilizers and urea-formaldehyde concentrate.

A 150-million-pound-per-year formaldehyde unit came on stream early in 1986 at Geismar, La. A new

formaldehyde plant and resin reactor will be completed in 1987 at Fayetteville, N.C.

Industrial Resins – Sales and operating income both set record highs (before adding the contribution of Acme Resin Corporation, acquired in June 1986) as a result of improved product mix, plant operating efficiencies and lower raw material costs.

Among the products marketed are liquid and dry phenolic resins for friction, abrasive, insulating and laminating end uses. Gains were particularly good in 1986 in the latter two lines.

Other products are sold to the foundry industry, primarily as mold binders. Customer acceptance continued strong for a new family of patented ester-cured phenolic resins, developed by Borden in the U.K. and introduced in the U.S. in 1985 under the *ALpHASET* and *Betaset* trademarks. Acme Resin has launched a major thrust to market these resins through its established sales force. Acme itself produces phenolic and urethane resin binders, phenolic-resin-coated sand and protective refractory coatings, for the oilfield service market as well as foundries.

Adhesives and Graphics – These two businesses benefited throughout 1986 from improved administrative efficiency and a manufacturing consolidation effected the prior year. The operation markets specialty adhesives, coatings and printing inks for many applications in the construction, automotive, publishing, packaging and electronic industries.

Adhesives sales about matched the prior year level, but operating income increased as a result of cost controls and a shift in product mix toward specialties for packaging and binding. The graphics business also

Greater use of PVC resin for vinyl siding and window frames contributed to the substantial profit gain in 1986.

focused on high-growth products for packaging, such as inks and coatings for ultraviolet curing.

Canada

The Canadian operations achieved record operating income, fueled by significant gains in volume. Dollar sales showed a more moderate gain as selling prices decreased in step with raw material costs.

Sharply higher sales of thermosetting resins to the forest products industry reflected strong activity in housing starts and renovations. A facility at Edmonton, Alberta, is due to start up in the second quarter of 1987 to manufacture powdered phenol-formaldehyde resin for waferboard.

A new facility that went into operation in Toronto, Ontario, in the first quarter of 1986 contributed to a doubling of sales for *Loadmaster* pallet-wrap film. Sales of *Resinite* PVC film for foodwrap showed little change from 1985.

Thermoplastic Resins

PVC Resins – The polyvinyl chloride resins business unit converts vinyl chloride monomer, produced by Borden, into PVC resins used internally for film products and sold on the merchant market.

Operating income in 1986 more than tripled the prior year's level; sales were up in both the domestic and export markets. A strong focus on higher-margin specialty resins and continued emphasis on cost savings were keys to the sharply higher operating income. Lower raw material costs and record plant utilization rates also contributed. Market share rose in all three specialty resin product lines: paste, blending and copolymer.

At year-end 1986, the PVC resin administrative group relocated from Leominster, Mass., to Geismar, La., where it was consolidated with the Petrochemicals marketing group to achieve cost efficiencies.

***Polyco* Latexes** – Highly competitive market conditions and lower raw material costs lowered prices in 1986 for polyvinyl acetate latexes, sold under the *Polyco* trademark. Partially offsetting pricing pressure were improvements in raw material utilization and other processing efficiencies.

Dishes and trays for airlines are among the rigid packaging products made by Borden in Holland.

Plastic Products

Wallcoverings – Borden manufactures wallcoverings through three units: Columbus Coated Fabrics (CCF) in the U.S., Crown in the U.K. and Sunworthy in Canada. The latter two were acquired in April 1985, positioning Borden as one of the world's largest wallcoverings producers.

The Company-owned distribution network, expanded in 1985 through the Crown/Sunworthy purchase, was again broadened in 1986. Isgo Corporation, which covers the Midwest, was acquired in October, and A.U. Morse, a West Coast distributor, became part of the Borden family in December.

The Crown and Sunworthy wallcoverings units together posted sharply higher sales and operating income in each quarter of 1986. Crown maintained its position as the U.K. market leader in printed wallcoverings and stepped up its profitable export volume by 30%, especially to France and North America. Crown has taken a leadership position in producing innovative new types of expanded vinyl wallcoverings. Sunworthy continued to be one of Canada's market leaders, and a major supplier to the U.S. Sunworthy's vinyl-coated paper products showed strong growth in 1986; an additional manufacturing line will be installed early in 1987.

Expansion studies are under way for Borden's *Adria* pasta, the best-selling brand in Brazil.

CCF's sales held steady in 1986. Operating income declined, largely reflecting the transfer of the production of paper-backed wallcoverings to another facility and the introduction of two new product lines, *Sunwall* and *Sun-Tex*. Good growth in the industrial products line in 1986 was led by sales gains in film laminates for metal/wood substrates.

Film – Both the Resinite and Proponite units performed very strongly in 1986.

The Resinite unit again posted excellent sales and operating income. While sales of polyvinyl chloride (PVC) packaging films (sold to supermarket and institutional foodservice customers under the *Resinite* brand) were level with the prior year, there were significant gains for *Loadmaster* low-density polyethylene stretch film for pallet wrapping. This growing demand is being met by substantial new capacity added in 1985 and a 50% expansion in 1986 of the newest facility, at Gainesville, Texas. Further expansion at Gainesville is planned.

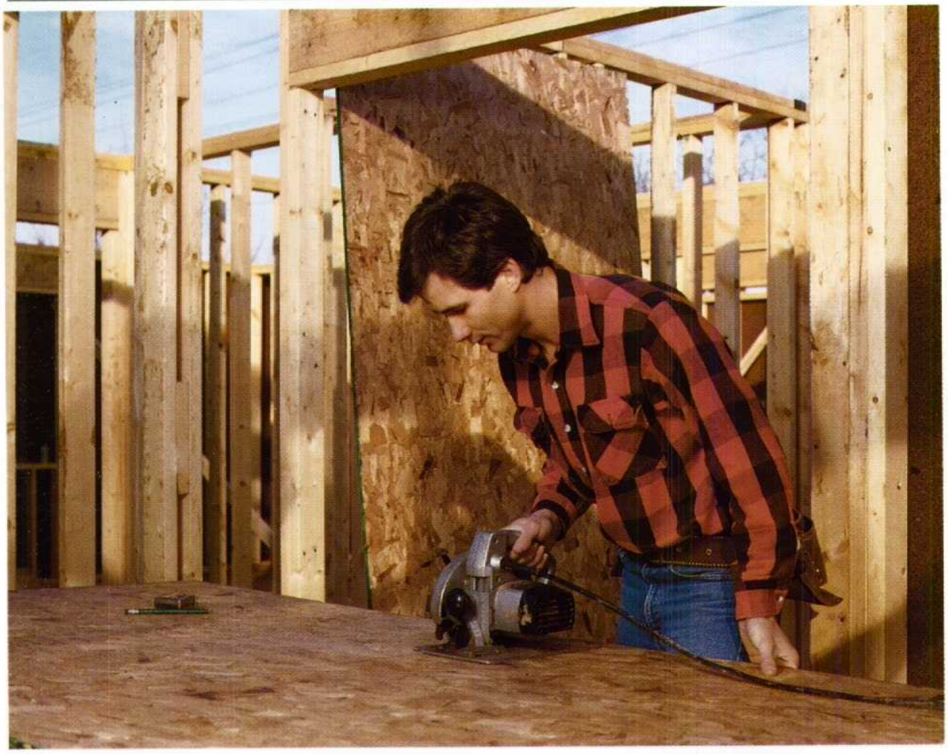
The Proponite unit produces oriented polypropylene film, sold under the *Proponite* brand, for use in the snack food, bakery, confectionery, pasta and other industrial packaging industries. Record sales and strong operating income were achieved in 1986 on the strength of a 70% capacity expansion brought on stream in December 1985 and continued strong demand for *Proponite* laminating film. One side of this unique product for packaging accepts either water-based or solvent-based inks, while the other provides superior "slip" characteristics to permit high-speed product filling.

The Vernon Plastics unit manufactures calendered vinyl for bookbinding, swimming pool liner and industrial applications; supported vinyl for home and boat upholstery; and multi-ply industrial laminates. A doubling in industrial laminates volume in 1986 largely reflected new products (such as tent and awning fabric) made possible by the wide-width manufacturing equipment installed in 1985. Another unit, Fabric Leather, manufactures cast expanded vinyl. Volume slipped in 1986 as a result of reduced activity in the U.S. handbag, luggage and shoe industries.

Basic Chemicals

The Basic Chemicals unit produced more than 4 billion pounds in 1986 – its highest production volume ever – and set individual records for vinyl chloride monomer, methanol and formaldehyde. Building block chemicals produced at the Geismar, La., petrochemicals complex also include acetylene, ammonia and urea. Operating income improved in 1986, even though merchant sales revenues were off as a result of lower industrywide selling prices.

Investments to reduce costs continued in 1986. Among these, two more co-generation units were installed, which will together save $5 million annually as they produce 70 megawatts of electrical power and over 300,000 pounds per hour of high-pressure steam. In addition, a new air-separation unit was placed on stream to recover oxygen, nitrogen and argon while improving the quality of vinyl chloride monomer. The unit is a *Petrocondo* partnership with BASF Wyandotte



Borden thermosetting resins are widely used in oriented strandboard, the forest products industry's fastest-growing item.

and Liquid Air; the former shares in using oxygen and nitrogen while the latter receives the argon for merchant sales.

INTERNATIONAL CHEMICAL OPERATIONS

All international business groups made significant gains in operating income in 1986 and contributed to record sales and income. Results in Europe benefited from the strengthening of local currencies against the dollar, while weakening currencies in Latin America held back dollar results in those areas.

Latin America

Latin America South – Additional economic restructuring by the Brazilian government created a surge in demand for consumer and industrial products. Borden's Alba unit achieved substantially higher income due to its strength in chemical-based consumer products and good performance in industrial lines, including ester-cured foundry resins introduced in 1985. The *Adria* pasta brand in Brazil posted record volume in 1986, and a capacity expansion to meet future demand is under study. The Argentine chemical unit remained that nation's major supplier of industrial resins for plywood and particleboard and is building a new plant for *Resinite* film to serve markets in meat and produce packaging.

Latin America North – Record income was registered in 1986 both in Colombia and Ecuador. The Colombian operation benefited from aggressive sales efforts for paints and consumer household products and from greater sales of high-margin specialty chemicals. Results in Ecuador also improved.

Europe

Thermoplastics Group – Total sales for the group increased substantially in 1986, and income rose to a record level, as a result of higher product demand, greater utilization of plant capacity, other efficiency gains and stable raw material costs.

Dollar sales and volume were ahead in the *Resinite* film product line. Film is manufactured in France, the U.K. and Spain.

The Dutch flexible film and rigid packaging operations serve the food industry. Sales, volume and income all were well ahead of the 1985 levels. Additional capacity for both flexible film and rigid packaging is scheduled to be on stream during the first quarter of 1987.

The rigid packaging business in the U.K. also achieved markedly higher sales and volume. Cross-fertilization with the Dutch rigid operation helped it to penetrate several new end-use markets.

The flexible-film coextrusion and conversion operation in Belgium, purchased in 1985, had an excellent first full-year performance. Its principal customers are the dairy and cheese industries.

Industrial Products Group – Income more than doubled in 1986 for this group, which produces thermosetting resins in the U.K., France and Spain. Growth was particularly good for *ALpHASET* and *Betaset* resins, the patented ester-cured foundry resins developed in the group's Southampton, U.K., laboratories. Specialty industrial tapes manufactured by Barnier in France continued to perform well.

Principal U.S. Consumer Products by Brand

Dairy

Borden whole, lowfat, skim, and chocolate milks and buttermilk; cottage cheese, sour cream, whipping cream and other creams; egg nog; ice cream and frozen novelties; orange juice
- *Eagle* brand ice cream
- *Hi-Calcium* milk
- *Hi-Protein* milk
- *Lady Borden* ice cream
- *Lite-line* cottage cheese, milk and yogurt

Hotel Bar butter
Keller's butter
Louis Sherry ice cream
Meadow Gold milk, ice cream, cottage cheese, sour cream and yogurt
Mountain High yogurt
Olde Fashioned Recipe ice cream
Viva lowfat and extra-calcium milks, cottage cheese and yogurt

Regional:
KLIM whole milk powder (New York)

Snacks

Borden cheese puffs, corn snacks and pretzels (canister)
- *Ranch Fries* snacks

La Famous tortilla chips
New York Deli potato chips
Seyfert's pretzels
Wise snacks and dips
- *Bravos* tortilla chips
- *Cheez Doodles* corn puffs
- *Cottage Fries* potato chips
- *Home Fries* potato chips
- *Pick Ups* single-serve snacks
- *Spirals* crispy corn snacks

Regional:
Buckeye potato chips (Ohio)
Clover Club potato chips and other snacks
- *El Molino, La Famous, Little Pancho* and *Mexican Kitchen* tortillas, chilis, dips, sauces and spices (Mountain/Western)

Geiser's potato chips and other snacks (Wisconsin)
Guy's potato chips, nuts and other snacks (Midwest)
Jays potato chips, popcorn and other snacks (Illinois and Great Lakes)
Seyfert's potato chips and other snacks (Indiana and Michigan)
Wise potato chips and other snacks (East Coast, Texas and Louisiana)

Pasta

Creamette

Regional:
Anthony's (Southern California and Arizona)
Bravo (New York)
Gioia (New York and Pennsylvania)
Globe A-1 (California and Arizona)
Luxury (Gulf Coast)
Merlino's (Pacific Northwest)
Mrs. Grass (Chicago)
New Mill (Midwest)
Pennsylvania Dutch (East Coast)
R&F (Midwest)
Red Cross (Midwest)
Ronco (Southeast)
Vimco (Pennsylvania, Ohio, West Virginia and New York)

Grocery

Bennett's sauces and toppings
Borden egg nog
Borden process cheese products
CheezTwin process cheese substitute
Lite-line cheese products
Campfire marshmallows
Cary's maple syrup
Coco Lopez cream of coconut and fruit drink mixes
Cracker Jack caramel-coated popcorn and peanuts
Cremora non-dairy creamer
Doxsee clam products
Eagle brand sweetened condensed milk
Fisher cheese substitute products
Sandwich-Mate slices
Ched-O-Mate, Pizza-Mate, Salad-Mate and *Taco-Mate* shredded products
Frosted shakes
Haviland candy
Kava instant coffee
None Such mincemeat
ReaLemon lemon juice from concentrate
ReaLime lime juice from concentrate
Snow's chowders and clam products
Wyler's bouillons
Lite-line low-sodium bouillons

Regional:
Bama jams, jellies and preserves, fruit drinks, syrup, peanut butter and mayonnaise (South and Southwest)
Country Store instant mashed potatoes (Midwest and Southwest)
Dime Brand sweetened condensed filled dairy blend (Southwest)
Gioia spaghetti sauce (New York)
Magnolia Brand sweetened condensed filled dairy blend (Miami) and melloream (New York)
Mrs. Grass soup and dip mixes (North Central)

Non-Food

Birge, Borden, Crown, Fashion House, Foremost, Gold Medal, Guard, Northwood, Satinesque, Shand Kydd, Sunwall 54, Sun-Tex, Sunworthy and *Wall-Tex* wallcoverings
Elmer's glues, cements, building adhesives, caulking compounds, sealants and wood filler
Krylon spray paints and varnishes; silicones and other lubricants; automotive maintenance and protection products
No. 7 car restorers, cleaners and washes; cooling system, engine and other car maintenance and performance products
Rain Dance car waxes, cleaners, washes restorers and protectants
Rally car waxes and cleaners
Sterling plastic office and school supplies

Social Responsibility

Borden's sense of social responsibility was reflected in 1986 through continued progress in equal employment opportunity, minority vendor purchases, and support of health and welfare, educational and cultural institutions.

To increase female and minority representation in the workforce, Borden has affirmative action hiring and promotion goals in place at each location. Data compiled in 1986 show that female representation within Borden has grown to its highest level ever, both overall and in the top four job categories of officials and managers, professionals, sales workers and technicians. Overall minority representation was 25.3%. More than half of minority employees held positions within the top four job categories, which exceeds the national average.

The Company's ongoing commitment to encourage minority enterprise achieved major gains in 1986. The number of minority-owned companies supplying Borden with goods and services increased by 33% to more than 1,000 vendors. Total purchases from these vendors jumped 43% to $50 million, from $35 million the prior year. Tax payments made through minority banks were up 6% from $47 million to $50 million. Borden increased its use of minority-owned media to create a greater awareness of its minority vendor program and also hosted several special trade shows aimed at linking minority vendors with Borden buyers.

The Borden Foundation, a conduit for charitable contributions, distributed 46% of its 1986 grant awards to health and welfare organizations, including United Fund drives in 117 Company locations. Grants to education comprised 32% of the Foundation's budget; among these awards, Borden continued to support the Independent College Funds of America, Inc. and the United Negro College Fund, Inc., which together represent 639 institutions of higher learning. The Borden Matching Gifts Program marked a 15% increase in the number of organizations and a 23% increase in the value of gifts made by employees in the areas of health, higher education, and the cultural and performing arts.

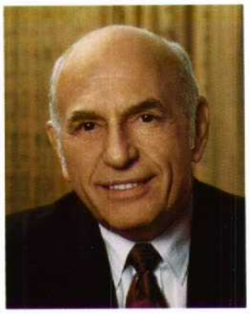
Changes in Directors and Officers

R. J. Ventres was elected chief executive officer of the Company, effective November 1, 1986, and chairman of the Board, effective February 1, 1987. Mr. Ventres succeeded Eugene J. Sullivan, who held both positions for the past seven years of his 41-year career with Borden. Mr. Sullivan remains a director and chairman of the Board's Executive Committee.

The Board has amended the corporate By-Laws so that Mr. Ventres can serve a full five years as chief executive officer, until December 1991. Mr. Ventres had been serving as president and chief operating officer. He was elected to those positions and as a director effective July 1, 1985. Mr. Ventres joined Borden in 1957 as a project engineer in its polyvinyl chloride operations at Leominster, Mass., after several years as an oil industry engineer in the U.S. and Middle East. He had advanced to group vice president of the Chemical Division, responsible for PVC operations and petrochemicals, when he left Borden in 1974 to become executive vice president of a specialty chemicals company in Philadelphia, Pa. He returned to the Chemical Division in 1979 as group vice president responsible for adhesives, energy resources and Canadian operations. He was named president of the Division and elected a corporate executive vice president in July 1983, at which time he also became a member of the Office of the Chairman.

James T. McCrory was elected vice president-public affairs effective March 1. Mr. McCrory joined Borden in 1970 as director of government relations and was named director of public affairs in 1973.

Office of the Chairman



R. J. VENTRES
Chairman and
Chief Executive Officer

A. S. D'AMATO
Executive Vice President
President, Chemical Division
Domestic and International

JON G. HETTINGER
Executive Vice President
President, Grocery and
Specialty Products Division

H. WAYNE MOSLEY
Executive Vice President
President, Dairy Division

GEORGE J. WAYDO
Executive Vice President
President, Snacks and
International Consumer
Products Division

CORPORATE SENIOR VICE PRESIDENTS

LAWRENCE O. DOZA
Chief Financial Officer

ALLAN L. MILLER
Chief Administrative Officer

DIVISION EXECUTIVES

Chemical Division Domestic and International

JOSEPH M. SAGGESE
Senior Group Vice President-
Resins & Chemicals/Adhesives, Polyco & Graphics/Canada

JOHN S. BELLECCI
Group Vice President-Basic Chemicals & PVC Operations

BENEDICT LETIZIA
Group Vice President-International

H. A. PEED
Group Vice President-Industrial Resins/Acme Resin

Dairy Division

RICHARD W. FOWLKES
Senior Group Vice President-Borden Dairy

JAY I. JOHNSON
Senior Group Vice President
President-Meadow Gold Dairies, Inc.

KENNETH W. BEAMAN
Group Vice President-Borden South East

ROBERT E. DAWSON
Group Vice President-Borden South West

ROBERT M. MALONEY
Group Vice President-Borden Northern

Grocery and Specialty Products Division

LEE N. ARST
Group Vice President-Confection and Main Meals

JERRY C. CLOWDUS
Group Vice President-Specialty Products

JOHN F. DIX
Group Vice President-Desserts and Beverages

L. JOHN WESTERBERG
Group Vice President-Pasta

Snacks and International Consumer Products Division

DAN O'RIORDAN
Senior Group Vice President-International

PETER M. DUGGAN
Group Vice President-Snacks

CORPORATE VICE PRESIDENTS

ALFRED S. CUMMIN
Science and Technology

FRANK L. FLORIAN
Planning

KAREN L. JOHNSON
Consumer Affairs

DAVID A. KELLY
Treasurer

WALTER W. KOCHER
General Counsel

EUGENE C. McCARTHY
General Controller

JAMES T. McCRORY
Public Affairs

FRANK H. VOIGT
Employee Relations

STAFF DEPARTMENTS

ROBERT G. TRITSCH
Secretary

H. CORT DOUGHTY, JR.
Assistant Secretary

RICHARD H. BYRD
Assistant Treasurer

FRED J. CHRVALA
Assistant Treasurer

TERRENCE W. GASPER
Assistant Treasurer

GEORGE W. SANBORN
Assistant Treasurer

L. CLARKE BUDLONG
Assistant General Controller

JAMES M. HESS
Assistant General Controller

RICHARD WEBER
Assistant General Controller

PAUL J. JOSENHANS
Associate General Counsel

LAWRENCE L. DIEKER
Assistant General Counsel

JAMES A. KING, JR.
Assistant General Counsel

RONALD P. MORAN
Assistant General Counsel

JUDY BARKER
President, The Borden Foundation

JOSEPH A. McCAHERY
General Auditor

Directors


Theodore Cooper, M.D.


Virginia Dwyer


James D. Finley

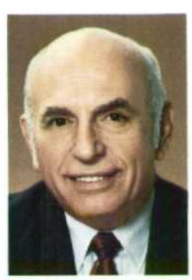

Ward S. Hagan


John W. Lynn

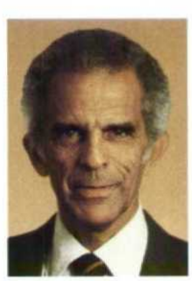

Robert T. Quittmeyer


Patricia Carry Stewart


Eugene J. Sullivan


R.J. Ventres


Pieter C. Vink


Franklin H. Williams

THEODORE COOPER, M.D.
Vice Chairman of the Board
The Upjohn Company
(Pharmaceuticals)

VIRGINIA DWYER
Former Senior Vice President – Finance
American Telephone and Telegraph Company

JAMES D. FINLEY
Retired Chairman
J.P. Stevens & Co., Inc.
(Textiles)

WARD S. HAGAN
Former Chairman and Chief Executive Officer
Warner-Lambert Company
(Health-care and consumer products)

JOHN W. LYNN
Retired Chairman and Chief Executive Officer
F.W. Woolworth Co.
(Retail merchandising)

ROBERT T. QUITTMEYER
Former Chairman and Chief Executive Officer
Amstar Corporation
(Sweeteners-industrial and technical products)

PATRICIA CARRY STEWART
Vice President
The Edna McConnell Clark Foundation
(Charitable foundation)

EUGENE J. SULLIVAN
Chairman of the Executive Committee
Former Chairman and Chief Executive Officer

R. J. VENTRES
Chairman and Chief Executive Officer

PIETER C. VINK
Retired Chairman
North American Philips Corporation
(Electrical/electronic manufacturing)

FRANKLIN H. WILLIAMS
President
Phelps-Stokes Fund
(Educational foundation)

Sales and Earnings

Sales for 1986 increased 6.1% to $5.002 billion from $4.716 billion in 1985. Net income for 1986 reached an all time high of $223.3 million, an increase of 15.2% over $193.8 million in 1985. Earnings per share were $3.00, an increase of 20.0% from $2.50 in 1985. Average shares outstanding in 1986 declined by 3.0 million from the 1985 amount, which in part contributed to the improvement in earnings per share.

Dividends

Dividends for 1986 were $1.093 per share, an increase of 10.7% over 1985. The increase in 1986 represents the thirteenth consecutive yearly increase. Dividends have been paid without interruption for 88 years. Future dividends and the amount thereof will depend upon earnings, cash requirements and other relevant factors.

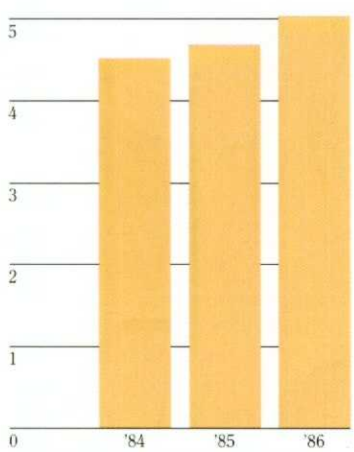
Return on Average Shareholders' Equity

Return on average shareholders' equity was 15.7% in 1986 and 14.3% in 1985.

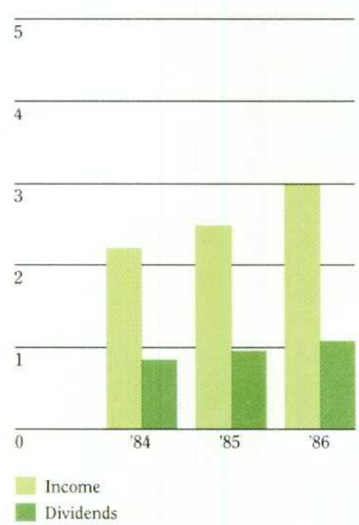
Management's Discussion and Analysis of Financial Condition and Results of Operations

Borden is primarily engaged in purchasing, manufacturing, processing and distributing a broad range of consumer and chemical products, both domestically and in foreign countries. Borden operates in two major industry segments: foods and chemical. Internally, Borden is organized into four operating divisions: Chemical Domestic and International; Dairy; Grocery and Specialty Products; and, Snacks and International Consumer Products. The foods segment encompasses primarily the Dairy Division; the Grocery and Specialty Products Division; and, the Snacks and International Consumer Products Division. The chemical segment encompasses primarily the Chemical Division Domestic and International. For administrative purposes certain chemical segment operations are included in the Grocery and Specialty Products and the Snacks and International Consumer Products Divisions; and, certain foods segment operations are included in the Chemical Division Domestic and International. A breakdown of the Company's sales, operating profit and other information between the foods and chemical industry segments is presented on pages 35 and 36. A three-year summary of sales and operating income by the four operating divisions is pre-

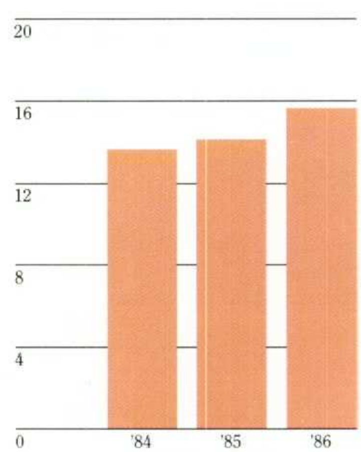
Sales
in billions of dollars



Income and Dividends Per Share
in dollars



Return on Average Shareholders' Equity
% return



Three Year Comparison of Division Sales and Operating Income

(Dollars In Thousands)

For The Years	1986		1985		1984	
Division Sales						
Chemical Domestic and International	**$1,443,097**	**29%**	$1,353,455	29%	$1,271,481	28%
Dairy	**1,331,070**	**26**	1,248,240	26	1,191,956	26
Grocery and Specialty Products	**1,192,380**	**24**	1,133,715	24	1,134,775	25
Snacks and International Consumer Products	**1,035,550**	**21**	980,762	21	969,806	21
Total	**$5,002,097**	**100%**	$4,716,172	100%	$4,568,018	100%
Division Operating Income						
Chemical Domestic and International	**$ 137,059**	**27%**	$ 98,603	25%	$ 120,186	31%
Dairy	**79,121**	**16**	73,839	18	59,906	15
Grocery and Specialty Products	**168,733**	**34**	137,612	35	122,748	31
Snacks and International Consumer Products	**114,047**	**23**	87,456	22	91,789	23
Total	**498,960**	**100%**	397,510	100%	394,629	100%
Other income and expenses not allocable to divisions and income taxes	**(275,648)**		(203,706)		(212,547)	
NET INCOME	**$ 223,312**		$ 193,804		$ 182,082	

sented above. An analysis of the results achieved, financial position and changes in financial position in both industry segments, in terms of the Company as a whole and its divisions for the three most recent years follows.

Liquidity and Capital Resources

Borden meets the majority of its ongoing cash requirements through operations. The amounts provided from operations and retained in the business in 1986, 1985 and 1984 were $365.8 million, $350.1 million and $243.9 million, respectively. Short-term borrowings are utilized to meet temporary cash requirements. See Note 3 of the Notes to Consolidated Financial Statements for further information regarding short-term borrowings.

Borden borrows domestically at commercial paper rates and has credit agreements available with domestic and foreign lending institutions to support commercial paper borrowing of approximately $480.0 million. The credit agreements bear interest, if used, at approximately the prime rate, or less, in effect at the date of use. Additional unused lines of credit totaling $159.0 million at December 31 are available for use by foreign subsidiaries.

At December 31, 1986, $315.0 million of Section 4(2) commercial paper has been classified as long term. This borrowing serves as bridge financing for the Meadow Gold dairy acquisition (discussed in Note 11) and will be retired with the proceeds from the issuance of Medium Term Notes. The Medium Term Notes, which are expected to be issued early in 1987, will be due from one to ten years from date of issue and will bear interest at market rates in force at time of issuance.

In 1986, 1985 and 1984 long-term debt financing provided $519.3 million, $310.1 million and $112.5 million, respectively. Long-term debt financing in 1986 included the proceeds from a $200.0 million offering of 30-year, 8⅜% sinking fund debentures, which were used to repay the commercial paper classified as long-term at December 31, 1985, and the proceeds of $315.0 million from Section 4(2) commercial paper discussed above. Long-term debt financing in 1985 included the $200.0 million of outstanding commercial paper classified as long-term debt and the proceeds from a $100.0 million offering of 10-year, 10¼% notes, which were used primarily to repay short-term debt. Long-term debt financing in 1984 included proceeds from a Eurodollar Extendible Note offering of $100.0 million, which were used to finance the

acquisition of Ronco Enterprises, Inc., a pasta manufacturer, and to repay short-term debt. At December 31, 1986 and 1985 long-term debt was 59% and 37%, respectively, of total shareholders' equity. Debt payable within one year increased $41.3 million in 1986, decreased $94.9 million in 1985, and increased $76.2 million in 1984.

The Company's strong financial position and history of growth in earnings provide a solid base for obtaining substantial financial resources. At December 31, 1986 the Company has the ability to borrow up to $285.0 million under a shelf registration statement which provides the Company with the flexibility to enter the market quickly and take advantage of favorable market conditions. If required, management believes that additional cash could be raised through long-term borrowings, including any under the shelf registration, of approximately $500.0 million.

The provisions of the Tax Reform Act of 1986 are expected to reduce taxes payable in future years, with the first noticeable impact expected in 1988, and did not materially affect the amount of taxes payable by the Company for 1986. The benefit of lower future tax rates is expected to more than offset negative aspects of the Act.

During 1986 the Company acquired several operations for a total cost of $556.2 million, the most significant being the Meadow Gold dairies in December. Other acquisitions during 1986 include three pasta operations, a dehydrated soup and pasta manufacturer, a snacks operation, a producer of clam products, a substitute cheese operation, two wallcovering distributors, and an industrial resins operation. Acquisitions during 1985 include the Crown and Sunworthy wallcovering operation, two pasta operations, a dairy operation, and a West German bakery operation. 1984 acquisitions include a pasta operation, three dairy operations, the remaining interest in a snacks operation in Spain and a rigid film products operation in Scotland.

Borden is actively engaged in complying with environmental protection laws, as well as the various federal and state statutes and regulations relating to producing, processing and distributing its many products. In this connection Borden incurred approximately $5.2 million of capital expenditures in 1986 as compared to $5.1 million in 1985 and $3.5 million in 1984. It is estimated that Borden will spend $14.1 million for environmental control facilities during 1987.

In 1986, the Company acquired 3.9 million treasury shares at a cost of $144.8 million. In 1985 and 1984 it acquired 1.6 million shares at a cost of $42.3 million and 6.2 million shares at a cost of $118.7 million, respectively. Treasury shares on hand and any additional shares which may be purchased in 1987 will be held for general corporate purposes including possible future acquisitions.

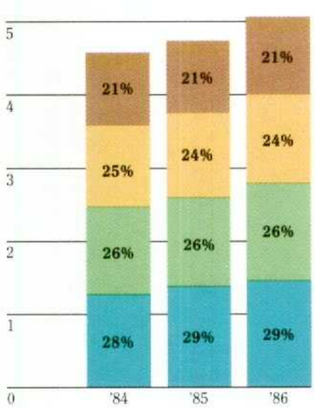
Results of Operations

Borden's operating divisions must deal with intense competition on the local and national level, both in the United States and overseas. Advertising and promotion expenditures were increased to $285.1 million in 1986 from $267.6 million in 1985 and $252.0 million in 1984 in order to preserve and expand Borden's market share.

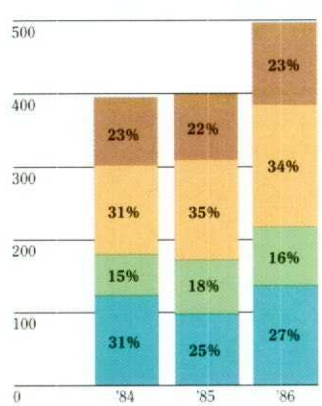
Raw materials and supplies used in production are purchased from a broad range of sources. Natural gas, a feedstock for Borden's petrochemical complex, is the subject of supply contracts.

Research and development expenditures were $22.7 million in 1986, $23.8 million in 1985 and $22.5 million in 1984. The

Sales by Division
in billions of dollars



Operating Income by Division
in millions of dollars



Snacks and International Consumer Products Division
Grocery and Specialty Products Division
Dairy Division
Chemical Division Domestic and International

development and marketing of new food and chemical products is carried out at the divisional level and is integrated with quality controls for existing product lines.

Net sales in 1986 increased 6.1% to a record $5.002 billion from 1985 sales of $4.716 billion as all four operating divisions posted increases. This exceeded the 1985 sales increase of 3.2% from 1984 sales of $4.568 billion, which resulted from increases at three of the operating divisions.

Earnings per share rose 20.0% to $3.00 from $2.50 in 1985 as a result of an increase in net income and in part due to 3.0 million fewer average shares outstanding in 1986. Earnings per share in 1985 exceeded the 1984 mark of $2.26 by 10.6%.

Divisional operating income for 1986, as discussed below, increased $101.5 million to $499.0 million from $397.5 million in 1985 as each operating division posted strong gains. Operating income in 1985 was increased from the 1984 amount of $394.6 million.

Net income increased to a new high of $223.3 million, a 15.2% increase from $193.8 million in 1985. The 1985 amount was 6.4% higher than the $182.1 million for 1984.

Income taxes in 1986 were $166.9 million versus $130.7 million in 1985, as a result of higher income in 1986 and effective income tax rates of 42.8% in 1986 and 40.3% in 1985. The income taxes were $136.7 million in 1984 which had an effective income tax rate of 42.9%.

The Chemical Division Domestic and International's 1986 sales increased 6.6% to $1.443 billion from $1.353 billion in 1985. Operating income increased 39.0% to $137.1 million from the $98.6 million level the year earlier, due primarily to higher selling prices and continued emphasis on cost controls. The Division's 1985 sales increased 6.4% from 1984, while operating income decreased 18.0% due primarily to sharply lower margins on basic chemicals and disappointing results of the Brazilian chemical operations.

The Dairy Division's 1986 sales increased 6.6% to $1.331 billion from $1.248 billion in 1985. As a result of manufacturing and distribution efficiencies, higher-margin new products, and tight cost controls, operating income increased 7.2% to $79.1 million from $73.8 in 1985. The Division's 1985 sales increased 4.7% and operating profit increased 23.3% from 1984 levels, primarily as a result of the increased sales and cost reductions.

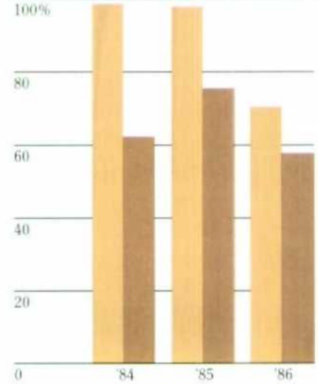
The Grocery and Specialty Products Division's 1986 sales increased 5.2% to $1.192 billion from $1.134 billion in 1985. Each of the Division's business groups contributed to an operating income increase of 22.6% to $168.7 million from $137.6 million in 1985. The Division's 1985 sales decreased slightly while operating income increased 12.1% from 1984.

The Snacks and International Consumer Products Division's 1986 sales increased 5.6% to $1.036 billion from $980.8 million in 1985. Operating income increased 30.4% to $114.0 million from $87.5 million in 1985. The domestic snacks group experienced favorable commodity prices, production efficiencies, and sales growth, and the results of the international consumer products group also improved significantly. The Division's 1985 sales increased slightly from 1984 but operating income decreased 4.7% because of declines experienced by international operations.

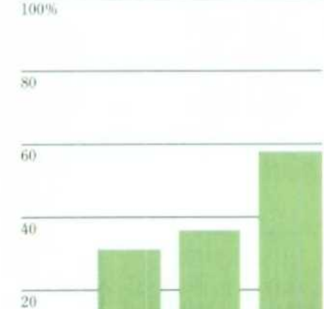
Inflation

Inflation in the U.S. has slowed in recent years. However, it continues to affect the economies in certain countries where the Company does business. The Company continuously attempts to minimize the effect of inflation through cost reductions and improved productivity.

Funds Provided From Operations as a Percent of Long-Term Debt and Total Debt



Long-Term Debt as a Percent of Equity



Business Segments

Borden, Inc., as discussed on the previous pages, operates in two major industry segments: foods and chemical. Corporate departments provide certain centralized services for the corporation and all operating units. The Company's general offices are located in Columbus, Ohio and its executive offices in New York City. Production facilities are located throughout the United States and in many foreign countries. The Company's operating properties are generally well maintained and effectively utilized.

A listing of principal U.S. consumer products is included on pages 26 and 27. This listing includes the foods segment products and the consumer products of the chemical segment. The chemical segment is also a major producer of basic petrochemicals and thermoplastics including formaldehyde, methanol, ammonia, urea, vinyl chloride monomer and PVC resins, most of which are utilized in the segment's downstream production facilities. Those facilities produce synthetic adhesives for the forest products and packaging industries, transparent wrapping film, printing inks, vinyl film, wallcoverings, glue and spray paint, and plastic school and office accessories.

As of December 31, 1986, the Company operated 127 domestic food manufacturing and processing facilities, the most significant being the Illinois plant producing *Cracker Jack* and bouillon, the Alabama plant producing *Bama* jams and jellies and *ReaLemon*, the snack group operations in Pennsylvania, Florida, Missouri, South Carolina, Texas, Indiana, Illinois, Wisconsin, Utah, and Ohio, the pasta operations in Minnesota, Louisiana, Arizona, Tennessee, Pennsylvania, California, Washington, Missouri, New York, and Illinois, the snack and specialty operations in Puerto Rico, and the dairy facilities, including the newly acquired Meadow Gold dairies, most of which are approximately the same size, located principally in the midwest, south, west, northwest and southwest; and the Company operated 26 foreign food and dairy manufacturing and processing facilities located principally in Latin America and Western Europe.

As of December 31, 1986 the Company operated 43 domestic chemical manufacturing and processing facilities, the most significant being the petrochemical complex in Louisiana and the thermoplastics and *Resinite* operations in Louisiana, Georgia, Massachusetts and Illinois; and the Company operated 47 foreign chemical manufacturing and processing facilities located principally in Brazil, Western Europe, Canada and the Far East.

Domestic products for the foods segment are marketed primarily through food brokers and distributors, and directly to wholesalers, retail stores, food service businesses, food processors, institutions and governmental agencies. The chemical segment products are sold throughout the United States to industrial users and, in the case of consumer products, by an in-house and independent sales force to distributors, wholesalers, jobbers and dealers. To the extent practicable, international distribution techniques parallel those used in the United States. However, raw materials, production considerations, pricing competition, governmental policy toward industry and foreign investment and other factors vary substantially from country to country for both industry segments.

Segment operating profit as shown on page 36 is total revenue less operating expenses. In computing segment operating profit none of the following items have been deducted from revenue: general corporate expenses, interest expense and Federal, state and local income taxes. Minority interests in earnings of certain subsidiaries and the Company's equity in earnings of unconsolidated 20% to 50% owned companies were immaterial and have been included in segment operating profit.

Identifiable assets by segment are those assets that are used in the segments' operations. Corporate assets are principally cash and cash items.

Business Segments

(In thousands)

Year Ended December 31		1986	1985	1984
Net Sales	Foods	**$3,364,137**	$3,184,655	$3,120,487
	Chemical	**1,637,960**	1,531,517	1,447,531
	Total	**$5,002,097**	$4,716,172	$4,568,018
Operating Profit	Foods	**$ 323,017**	$ 268,551	$ 243,208
	Chemical	**175,943**	128,959	151,421
	Total segments	**498,960**	397,510	394,629
	General Corporate income (expense)	**(28,601)**	1,351	3,408
	Interest expense	**(80,147)**	(74,357)	(79,255)
	Earnings before income taxes	**$ 390,212**	$ 324,504	$ 318,782
Identifiable Assets	Foods	**$2,068,475**	$1,485,675	$1,414,600
	Chemical	**1,398,924**	1,336,474	1,223,220
	Total segments	**3,467,399**	2,822,149	2,637,820
	Corporate assets	**114,790**	110,097	129,315
	Total	**$3,582,189**	$2,932,246	$2,767,135
Depreciation, Depletion, and Amortization	Foods	**$ 57,012**	$ 52,576	$ 50,326
	Chemical	**77,161**	67,389	58,952
Capital Expenditures	Foods	**$ 77,190**	$ 90,485	$ 78,406
	Chemical	**84,048**	101,925	83,555
Foreign Operations	Net sales	**$ 957,907**	$ 832,311	$ 752,288
	Operating profit	**111,472**	75,884	83,039
	Identifiable assets	**674,915**	636,656	505,187

Five-Year Selected Financial Data

(All dollar and share figures in thousands—except market price, number of common shareholders, average number of employees, and per share statistics)

For The Years	1986	1985*	1984*	1983*	1982*
Summary of Earnings					
Net sales	**$5,002,097**	$4,716,172	$4,568,018	$4,264,771	$4,111,277
Income taxes	**166,900**	130,700	136,700	139,600	70,400
Net income	**223,312**	193,804	182,082	184,581	147,100
Percent of net income to sales	**4.5%**	4.1%	4.0%	4.3%	3.6%
Net income per common share:					
Primary	**$ 3.00**	$ 2.50	$ 2.26	$ 2.13	$ 1.72
Fully diluted	**3.00**	2.50	2.26	2.11	1.66
Dividends:					
Common share	**$ 1.093**	$ 0.987	$ 0.883	$ 0.795	$ 0.726
Preferred series B share	**1.32**	1.32	1.32	1.32	1.32
Average number of common shares outstanding during the year for calculation of: (a)					
Primary earnings per share	**74,547**	77,532	80,532	86,456	85,591
Fully diluted earnings per share	**74,547**	77,532	80,532	87,364	89,150
Financial Statistics					
Capital expenditures	**$ 163,017**	$ 193,602	$ 163,751	$ 184,914	$ 240,104
Inventories	**462,571**	423,046	418,740	397,751	399,272
Property, plant and equipment, net	**1,443,246**	1,296,460	1,214,260	1,187,765	1,125,190
Depreciation, depletion and amortization	**137,237**	122,651	111,875	94,602	96,008
Total assets	**3,582,189**	2,932,246	2,767,135	2,622,128	2,500,260
Current assets	**1,437,470**	1,318,734	1,221,729	1,138,461	1,082,315
Current liabilities	**1,005,338**	705,182	781,202	684,593	604,360
Working capital	**432,132**	613,552	440,527	453,868	477,955
Current ratio	**1.4:1**	1.9:1	1.6:1	1.7:1	1.8:1
Long-term debt	**$ 845,442**	$ 526,563	$ 423,413	$ 377,683	$ 434,876
Long-term debt-to-equity percent	**59%**	37%	32%	28%	34%
Shareholders' equity	**$1,438,743**	$1,407,795	$1,309,604	$1,342,024	$1,296,806
Liquidating value of preferred stock	**(409)**	(494)	(576)	(649)	(710)
Common shareholders' equity	**1,438,334**	1,407,301	1,309,028	1,341,375	1,296,096
Equity per common share at year-end	**19.54**	18.27	16.78	15.96	15.14
Return on average shareholders' equity	**15.7%**	14.3%	13.7%	14.0%	11.4%
Ratio of earnings to fixed charges	**4.9:1**	4.5:1	4.4:1	4.5:1	3.4:1
Shareholders' Data					
Outstanding shares at year-end:					
Common	**73,625**	77,016	78,023	84,024	85,593
Preferred series B	**14**	17	20	22	25
Market price of common stock:					
At year-end	**$ 46⅞**	$ 34⅜	$ 21⅝	$ 18⅞	$ 15⅞
Range during year	**52½-31¾**	35⅝-21⅛	21⅝-16⅝	20⅜-15⅛	17½-9
Number of common shareholders	**40,474**	43,374	43,409	45,689	50,202
Employees' Data					
Payroll	**$ 667,500**	$ 637,300	$ 608,400	$ 578,000	$ 571,600
Average number of employees	**33,800**	32,700	32,200	32,600	33,200

*Restated for the three-for-two stock split explained in Note 7 to Consolidated Financial Statements.
(a) Years prior to 1985 include common share equivalents.

Consolidated Statements of Income

(In thousands except per share data)

Year Ended December 31,		1986	1985	1984
Revenue	Net sales	**$5,002,097**	$4,716,172	$4,568,018
Costs and Expenses	Cost of goods sold	**3,742,193**	3,615,560	3,507,549
	Marketing, general and administrative expenses	**814,224**	727,314	688,382
	Interest expense	**80,147**	74,357	79,255
	Other income and expense, interest income, and equity in income of affiliates, net	**(24,679)**	(25,563)	(25,950)
	Income taxes	**166,900**	130,700	136,700
		4,778,785	4,522,368	4,385,936
Earnings	Net income	**$ 223,312**	$ 193,804	$ 182,082
Share Data	Net income per common share	**$ 3.00**	$ 2.50	$ 2.26
	Cash dividends per common share	**1.093**	0.987	0.883
	Average number of common shares outstanding during the year	**74,547**	77,532	80,532

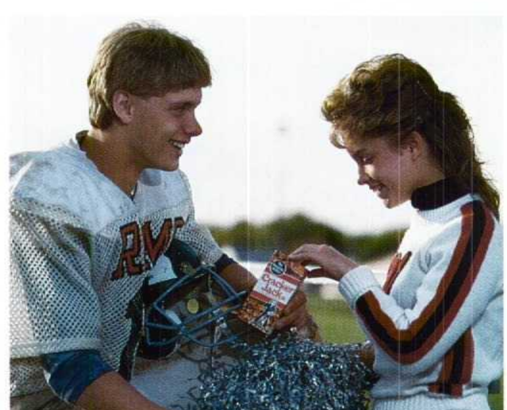
See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Financial Position

(In thousands)

Year Ended December 31,		1986	1985	1984
Funds Provided From Operations And Retained In The Business	Division operating income	**$ 498,960**	$ 397,510	$ 394,629
	Depreciation, depletion, and amortization	**137,237**	122,651	111,875
	Changes in trade receivables, payables, and inventories	**17,718**	16,117	(77,059)
	Other, net	**(49,244)**	(20,336)	(9,968)
		604,671	515,942	419,477
	Income taxes paid	**(157,524)**	(89,379)	(104,544)
	Dividends paid	**(81,347)**	(76,501)	(71,066)
		365,800	350,062	243,867
Funds Provided From Divested Operations	Divestiture of businesses	**209,094**	4,339	1,532
Funds Used In Investment Activities	Capital expenditures	**(163,017)**	(193,602)	(163,751)
	Purchase of businesses	**(556,160)**	(66,044)	(44,166)
		(719,177)	(259,646)	(207,917)
Funds Used In Financing Activities	Acquisition of treasury stock	**(144,784)**	(42,324)	(118,665)
	Stock issued in connection with acquisitions and stock options	**19,186**	13,888	3,307
	Increase (decrease) in debt payable within one year	**41,322**	(94,898)	76,194
	Long-term debt financing	**519,253**	310,075	112,455
	Reduction in long-term debt	**(227,675)**	(207,518)	(67,098)
	Interest paid, net	**(74,346)**	(55,244)	(64,514)
		132,956	(76,021)	(58,321)
	(Decrease) increase in cash (including time deposits and short-term investments)	**$ (11,327)**	$ 18,734	$ (20,839)

See Notes to Consolidated Financial Statements



Consolidated Balance Sheets

(In thousands except share and per share data)

December 31,		1986	1985
ASSETS			
Current Assets	Cash (including time deposits and short-term investments of $33,498 and $64,911, respectively)	$ 129,742	$ 141,069
	Accounts receivable (less allowance for doubtful accounts of $13,421 and $10,763, respectively)	720,531	666,233
	Inventories:		
	Finished and in process goods	288,322	263,790
	Raw materials and supplies	174,249	159,256
	Other current assets	124,626	88,386
		1,437,470	1,318,734
Investments and Other Assets	Investments in and advances to affiliated companies	24,385	21,453
	Miscellaneous investments and receivables	26,189	19,346
	Other assets	75,937	55,296
		126,511	96,095
Property and Equipment	Land	83,774	57,940
	Buildings	460,286	399,391
	Machinery and equipment	1,975,686	1,819,891
		2,519,746	2,277,222
	Less accumulated depreciation	(1,076,500)	(980,762)
		1,443,246	1,296,460
Intangibles	Intangibles resulting from business acquisitions	574,962	220,957
		$3,582,189	$2,932,246

See Notes to Consolidated Financial Statements

December 31,		1986	1985
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities	Debt payable within one year	**$ 189,668**	$ 150,974
	Accounts and drafts payable	**460,577**	350,168
	Income taxes	**52,920**	30,777
	Other current liabilities	**302,173**	173,263
		1,005,338	705,182
Other	Long-term debt	**845,442**	526,563
	Deferred income taxes	**280,858**	281,951
	Other long-term liabilities	**7,907**	6,764
	Minority interests in consolidated subsidiaries	**3,901**	3,991
		1,138,108	819,269
Shareholders' Equity	Capital Stock:		
	Preferred stock-no par value		
	Authorized 10,000,000 shares		
	Issued series B convertible—14,158 shares and 17,095 shares, respectively (involuntary liquidating value of $409 or $28.88 per share at December 31, 1986)	**58**	71
	Common stock—$1.25 par value		
	Authorized 240,000,000 shares and 120,000,000 shares, respectively		
	Issued 100,991,887 shares and 100,992,111 shares, respectively	**126,240**	126,240
	Paid in capital	**268,269**	263,537
	Accumulated translation adjustment	**(79,437)**	(94,018)
	Retained earnings	**1,603,090**	1,461,125
		1,918,220	1,756,955
	Less common stock in treasury (at cost)—27,367,248 shares and 23,976,126 shares, respectively	**(479,477)**	(349,160)
		1,438,743	1,407,795
		$3,582,189	$2,932,246

Consolidated Statement of Shareholders' Equity

(In thousands)

Three Years Ended December 31, 1986	CAPITAL STOCK ISSUED Preferred Series B	Common	Paid-In Capital	Accumulated Translation Adjustment	Retained Earnings	Treasury Stock
Balance, December 31, 1983	$93	$126,150	$257,033	$ (75,264)	$1,232,806	$(198,794)
Net income					182,082	
Cash dividends:						
Common stock					(71,038)	
Preferred Series B					(28)	
Translation adjustment for the period				(28,078)		
Stock reacquired for acquisitions and treasury						(118,665)
Preferred series B stock converted	(11)	2	(84)			93
Stock issued for exercised options and Management Incentive Plan		88	1,266			1,953
Balance, December 31, 1984	82	126,240	258,215	(103,342)	1,343,822	(315,413)
Net income					193,804	
Cash dividends:						
Common stock					(76,477)	
Preferred series B					(24)	
Translation adjustment for the period				9,324		
Stock reacquired for acquisitions and treasury						(42,324)
Preferred series B stock converted	(11)		(119)			130
Stock issued for exercised options			1,290			3,998
Stock issued for acquisitions			4,151			4,449
Balance, December 31, 1985	71	126,240	263,537	(94,018)	1,461,125	(349,160)
Net income					223,312	
Cash dividends:						
Common stock					(81,327)	
Preferred series B					(20)	
Translation adjustment for the period				14,581		
Stock reacquired for acquisitions and treasury						(144,784)
Preferred series B stock converted	(13)		(148)			161
Stock issued for exercised options			4,880			4,721
Stock issued for acquisitions						9,585
Balance, December 31, 1986	$ 58	$126,240	$268,269	$(79,437)	$1,603,090	$(479,477)

See Notes to Consolidated Financial Statements

(In thousands except share and per share data)

1. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation—The consolidated financial statements include the accounts of Borden, Inc. and its subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income. The carrying value of these companies equals Borden's interest in their underlying net assets. Investments of less than 20% ownership are carried at cost.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined using the average cost and first-in, first-out methods.

Property and Equipment—Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to costs and expenses at rates based on the estimated useful lives of the properties (average rates for buildings—3%; machinery and equipment—7%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts.

Intangibles—The excess of purchase price over net tangible assets of businesses acquired is carried as intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October 1970 are being amortized on a straight-line basis generally over a forty-year period.

Income Taxes—The provision for income taxes includes Federal, foreign, state and local income taxes currently payable and those deferred because of timing differences between income for financial statements and income for tax purposes. Investment tax credits are recorded as a reduction of current income tax expense in the years realized. A substantial portion of the undistributed earnings of subsidiaries, primarily outside the United States, has been reinvested and is not expected to be remitted to the parent company. Accordingly, no additional Federal income taxes have been provided and at December 31, 1986, the cumulative amount of reinvested income was approximately $283,000.

Pension, Retirement Savings and Certain Postretirement Benefits Plans—Substantially all of the Company's domestic and Canadian employees are covered under one of the Company's pension plans or one of the union-sponsored plans to which the Company contributes. For 1986, pension expense for the Company's plans includes current service cost, interest cost on the projected benefit obligation, return on plan assets and the amortization of the transitional amount pursuant to the provisions of Statement of Financial Accounting Standard No. 87, "Employers' Accounting for Pensions", which the Company adopted as of January 1, 1986. For 1985 and 1984 pension expense includes current service cost and amortization of prior service costs, effectively, over a thirty year period. The Company funds pension costs in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974.

Substantially all domestic and Canadian salaried employees participate in the Company's retirement savings plans. The Company's cost of providing the retirement savings plans represents its matching of eligible contributions made by participating employees and is recognized as a charge to income in the year the cost is incurred.

The Company provides certain health and life insurance benefits for eligible domestic and Canadian retired employees. Retired employees may become eligible for coverage by Company plans if they meet age and service requirements as indicated in the plans' provisions. The cost of providing health and life insurance benefits to retired employees under Company plans is recognized as a charge to income in the year the cost is incurred.

Earnings Per Share—In 1986 and 1985, earnings per common share were computed based on the weighted average number of common shares outstanding. In 1984, earnings per common share were computed based on the weighted average number of common shares and common share equivalents assumed outstanding. Common share equivalents, which are not significant, totalled 255,000, 254,000 and 211,000 in 1986, 1985 and 1984, respectively.

2. Foreign Affiliates

The financial statements of foreign entities have been translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52. The principal policies are that assets and liabilities are generally translated at current exchange rates and related translation adjustments are reported as a component of shareholders' equity. For entities in highly inflationary countries a combination of current and historical rates are used in translating assets and liabilities. Related exchange adjustments are included in net income.

After translation into U.S. dollars, the Company's proportionate share of net assets of foreign affiliates included in the Consolidated Financial Statements was $370,000 at December 31, 1986 and $300,000 at December 31, 1985.

Realized and unrealized net foreign exchange losses aggregating $5,300, $20,000 and $15,400 were charged against net income in 1986, 1985 and 1984, respectively.

3. Debt, Lease Obligations and Commitments

Debt outstanding at December 31, 1986 and 1985 is as follows:

	1986		1985	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
12½% Eurodollar Extendible Notes due 1996	$100,000		$100,000	
10¼% Notes due 1995	100,000		100,000	
Sinking fund debentures:				
4⅜% due 1991	605		636	
5¾% due 1997			7,281	
8⅜% due 2016	200,000			
Commercial paper (at a rate of 10.65%)			200,000	
Section 4(2) commercial paper (at an average rate of 6.6%)	315,000			
Industrial Revenue Bonds (at an average rate of 8.9% and 8.8%, respectively)	67,000	535	61,235	815
Other borrowings (at an average rate of 8.0% and 9.4%, respectively)	62,837	4,100	57,411	5,631
Total current maturities of long-term debt		4,635		6,446
Short-term debt:				
Commercial paper (at an average rate of 7.2% and 8.1%, respectively)		77,150		81,845
Other (primarily foreign bank loans at an average rate of 11.4% and 21.8%, respectively)		67,883		62,683
Domestic bank loans (at an average rate of 7.6%)		40,000		
Total debt	$845,442	$189,668	$526,563	$150,974

During 1986, the Company sold at approximately par $200,000 of 8⅜% sinking fund debentures with a final maturity in 2016. During 1985 the Company sold at approximately par $100,000 of 10¼% Notes with a final maturity in 1995. Proceeds from these sales were used primarily to repay commercial paper.

At December 31, 1986, $100,000 of 12½% Eurodollar Extendible Notes which could mature or be extended in October 1987 have been classified long-term as a result of the Company's intent and ability, through its credit facilities, to maintain such amount of debt for more than one year. At December 31, 1985 $200,000 of commercial paper was also classified long term for the same reason.

Also, at December 31, 1986, $315,000 of Section 4(2) commercial paper has been classified as long term. This borrowing serves as bridge financing for the Meadow Gold acquisition (discussed in Note 11) and will be retired with the proceeds from the issuance of Medium Term Notes, which are expected to be issued early in 1987, will be due from one to ten years from date of issue and will bear interest at market rates in force at time of issuance.

During 1985 certain sinking fund debentures were retired through a combination of direct repurchase and in-substance defeasance, which was accomplished through the deposit of U.S. government obligations in irrevocable trusts to be used to satisfy scheduled principal and interest payments. The total amount of debt considered to be extinguished by defeasance at December 31, 1986 is $65,000.

Aggregate maturities of long-term debt and minimum annual rentals under agreements classified and accounted for as operating leases at December 31, 1986 are as follows:

	Long-Term Debt	Minimum Rentals on Operating Leases
1987	$4,635	$26,677
1988	59,215	24,532
1989	41,340	19,354
1990	26,767	13,565
1991	31,707	9,420
1992 and beyond*	686,413	31,390

*Figures represent combined totals for all years.

The average amount of short-term commercial paper outstanding was $165,000 during 1986 and $222,000 during 1985, and the average amount of other short-term debt was $63,000 during 1986 and $39,000 during 1985. The respective weighted average interest rates for short-term commercial paper and other short-term debt were 7.2% and 17.1% during 1986, and 8.3% and 25.4% during 1985. Maximum month-end borrowings were $373,000 in 1986 and $280,000 in 1985 for short-term commercial paper, and $82,000 in 1986 and $63,000 in 1985 for other short-term debt. Short-term commercial paper was issued and redeemed on the open market in the United States through a money market dealer.

The Company entered into a five-year $300,000 Revolving Note Issuance Facility in 1985 with a group of banks for the issuance of short-term notes in the Eurodollar market. The Company also has credit agreements of approximately $180,000 under which it can execute term loans for up to two years; pursuant to this agreement, the Company has agreed to maintain minimum cash balances aggregating approximately $7,000 with various commercial banks. These requirements are satisfied by balances maintained for normal business needs. All of the above credit facilities require a

commitment fee, bear interest, if used, at approximately the prime rate, or less, and are available to support domestic commercial paper borrowing, except for $40,000 of domestic bank loans that was borrowed at the prime rate at December 31, 1986. Additional unused credit facilities of $159,000 at December 31, 1986 were available for use by foreign subsidiaries.

The Company has capitalized interest that related to the capital cost of acquiring certain fixed assets. The interest costs incurred and the amounts capitalized were $84,717 and $4,570 in 1986, $79,762 and $5,405 in 1985 and $81,683 and $2,428 in 1984.

4. Income Taxes

Comparative analyses of the provisions for income taxes follows:

	1986	1985	1984
Current			
Federal	$100,500	$ 43,700	$ 62,800
State and Local	22,200	11,500	14,200
Foreign	29,400	18,500	22,400
	152,100	73,700	99,400
Deferred			
Federal	8,500	45,400	30,400
State and Local	1,400	6,900	5,100
Foreign	4,900	4,700	1,800
	14,800	57,000	37,300
	$166,900	$130,700	$136,700

The deferred Federal tax provisions in 1986, 1985 and 1984 reflect accelerated write-offs of property and equipment costs, the Federal tax effects of which were $10,600, $38,300 and $32,000, respectively. The decrease in the 1986 deferred tax provision compared with 1985 results from these reduced property write-offs and prior year gains on early extinguishment of debt deferred in 1985 to 1986.

Reconciliations of the differences between the Federal statutory tax rates and consolidated effective book income tax rates are as follows:

	1986	1985	1984
Federal statutory tax rate	46.0%	46.0%	46.0%
State tax provision, net of Federal benefit	3.3	3.1	3.3
Investment and energy tax credits	(1.1)	(3.2)	(2.7)
Items at foreign tax rates	(0.9)	(2.3)	(1.6)
Items at capital gain rates	(2.3)	(0.5)	(1.5)
Other—net	(2.2)	(2.8)	(0.6)
Effective book income tax rate	42.8%	40.3%	42.9%

The domestic and foreign components of income before income tax are as follows:

	1986	1985	1984
Domestic	$288,234	$260,537	$255,387
Foreign	101,978	63,967	63,395
	$390,212	$324,504	$318,782

5. Operations by Industry Segment

Information about the Company's industry segments and geographic areas of operation is provided on pages 35 and 36 of this Annual Report and is an integral part of the Consolidated Financial Statements.

6. Pension, Retirement Savings and Certain Postretirement Benefit Plans

Effective January 1, 1986 the Company adopted Statement of Financial Accounting Standard (SFAS) No. 87. The Statement, as required, was adopted on a prospective basis; consequently, prior year financial statements have not been restated.

Company contributions charged to operations under the Company's retirement savings plans in 1986, 1985 and 1984 amounted to approximately $14,400, $11,100 and, $9,200, respectively. The Company's matching contribution was 120% in 1986 and 100% in 1985 and 1984 of eligible contributions by employees. Eligible contributions are 5% for all participating employees and as much as 7% for longer service employees.

For salaried employees the Company's domestic and Canadian pension plans provide benefits based on the employee's final average compensation and credited service prior to 1988 and career average compensation and credited service after 1987. For hourly employees the plans provide benefits based on specified amounts and credited service.

Pension expense under the Company's domestic and Canadian pension plans for 1986 was a credit of $4,500 and for 1985 and 1984 was a charge of $3,700 and $10,500, respectively. The reduction in 1986 resulted from changes made in actuarial assumptions, cost methods and the adoption of SFAS No. 87, the effect of which was not material to net income for the quarterly and annual results. Expense for 1985 was reduced from 1984 primarily because of a change in the assumed rate of return used in determining the actuarial liabilities for employees retiring after January 1, 1984 under the domestic plan. For 1984 the assumed rate was 8.25% but for 1985 it was changed to the yield obtainable on government obligations over periods during which plan benefits are payable. For 1985 the assumed rate ranged from 7.8% to 11.1%, depending on the duration, as to current plan assets and remained at 8.25% for the long-term future. Similar assumption changes were also made for the Canadian plan during 1985.

Following are the components of the net pension credit recognized by the Company in 1986 for its domestic and Canadian plans:

Service cost—benefits earned during the period	$ 7,300
Interest cost on the projected benefit obligation	29,600
Actual return on plan assets	(61,300)
Net amortization and deferral	19,900
Net pension credit	$ (4,500)

The weighted average discount rate and rate of increase in future compensation levels used in determining the net periodic pension credit was 9.5% and 7.0%, respectively. The expected long-term rate of return on plan assets was 10.5%.

No comparable analysis of the 1985 and 1984 net pension expense can be made due to differences in actuarial methods and assumptions employed under SFAS No. 87.

Operations were charged approximately $7,000 in 1986, $8,000 in 1985 and $7,600 in 1984 primarily for payments to pension trusts on behalf of domestic employees not covered by the Company's plans and foreign employees.

Most domestic employees not covered by the Company's plans are covered by collectively bargained agreements which are generally effective for periods of from one to three years. Under federal pension law there would be continuing liability to these pension trusts if the Company ceased all or most participation in any such Trust, and under certain other specified conditions. The annual payment of such continuing liability would not normally exceed the annual amount currently being paid to such Trust. The amount of such liability would be determined should the Company withdraw from participation.

The charges to operations for health and life insurance benefits to retired domestic and Canadian employees under Company plans amounted to $4,700, $5,100, and $5,400 in 1986, 1985 and 1984, respectively.

The combined funded status of the Company's domestic and Canadian plans and the amounts included in the Company's balance sheet at December 31, 1986 was as follows:

Plan assets at fair value	$ 409,300
Actuarial present value of benefit obligations:	
Accumulated benefit obligation (including vested benefits of $363,800)	(389,900)
Effect of projected future compensation levels	(18,400)
Projected benefit obligation	(408,300)
Plan assets in excess of projected benefit obligation	1,000
Unrecognized loss	46,000
Unrecognized portion of net assets upon adoption of SFAS No. 87	(45,600)
Prepaid pension cost included in other assets	$ 1,400

Plan assets consist primarily of equity securities and corporate obligations. Common stock of the Company accounts for approximately 9% of the total market value of plan assets at December 31, 1986.

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.5% and 5.5%, respectively.

Foreign pension plans are not significant in the aggregate and therefore are not summarized with the domestic and Canadian plans. However, the total of plan assets and accruals approximated the actuarially computed projected benefit obligation.

7. Shareholders' Equity

At the April 18, 1986 Annual Meeting, the shareholders approved a proposal to amend the Company's Certificate of Incorporation to double the number of authorized common shares from 120 million shares to 240 million shares. On June 3, 1986 a three-for-two split of the Company's common stock was effected through the distribution of one additional share for each two shares of stock already issued. In connection with the split, the par value of the common stock was reduced from $1.875 per share to $1.25 per share. As a result, there was no change in the capital accounts. Amounts per share and number of shares have been restated to give retroactive effect to the stock split.

Each of the 14,158 shares of preferred series B stock bears an annual cumulative dividend of $1.32, is convertible into 3.3 common shares, and is redeemable at the Company's option at $39. At December 31, 1986, 46,721 common shares were reserved for conversion of preferred series B stock.

On January 28, 1986 the Company declared a dividend distribution of one preferred stock purchase right (Right) for each outstanding share of common stock. Each Right entitles shareholders to purchase, under certain circumstances, one one-hundredth of a newly issued share of Series C Junior Participating Preferred Stock at an exercise price of $175, subject to adjustment. The Rights may only be exercised if a person or group acquires 20% or more of the Company's common stock or announces a tender or exchange offer for 30% or more of the common stock. The Rights, which do not have voting rights, expire on February 10, 1996 and may be redeemed by the Company at a price of $0.05 per Right at any time prior to their expiration or the acquisition of 20% or more of the Company's common stock.

In the event the Company is involved in a merger or other business combination transaction in which the Company does not survive or in which its common stock is exchanged, each holder of a Right will be entitled to purchase, at the exercise price, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the exercise price of the Right.

Following is an analysis of common shares reserved for stock options under the Company's 1974 and 1984 Stock Option Plans:

	Common Shares Reserved For Stock Options	
	Shares	Price Range
January 1, 1986	1,399,068	$ 8.46-21.27
Grants	395,103	35.50-43.44
Exercises	(454,939)	8.46-21.27
Expirations or cancellations	(16,238)	10.33-35.50
December 31, 1986	1,322,994	8.46-43.44

At December 31, 1986, 934,829 options were exercisable. Included with the shares reserved for unexercised options at

December 31, 1986 are 600,268 options with stock appreciation rights attached, which permit the holder the election, in lieu of exercising the option, of receiving cash, shares, or a combination of cash and shares. During 1986, 184,496 stock appreciation rights were exercised.

The Company's 1984 Stock Option Plan provides for the grant of options to purchase up to 2,550,000 shares of the Company's common stock. The Plan expires in 1989 and no further options may be granted thereafter. At December 31, 1986 and 1985 there were 1,330,685 and 1,718,850 shares, respectively, available for future grants.

8. Supplemental Income Statement Information

Set forth below is a comparative summary of certain expense items:

	1986	1985	1984
Maintenance and repairs	$116,871	$113,320	$117,714
Depreciation, depletion and amortization	137,237	122,651	111,875
Advertising and promotion, including promotions of $230,557, $213,429 and $186,893, respectively	285,091	267,625	252,048
Research and development	22,728	23,829	22,513
Rent	38,211	34,097	33,970

9. Quarterly Financial Data (Unaudited)

1986 Quarters	First	Second	Third	Fourth
Net Sales	$1,136,389	$1,236,893	$1,272,460	$1,356,355
Gross Profit	260,255	301,810	336,411	361,428
Net Income	36,679	51,957	65,880	68,796
Per share of common stock:				
Earnings	.49	.70	.89	.93
Dividends*	.253	.28	.28	.28
Market Price Range:				
Low	31¾	37⅛	40	43⅜
High	41⅜	50	51	52½

*Dividends on preferred series B stock were $.33 in each quarter during 1986.

1985 Quarters	First	Second	Third	Fourth
Net Sales	$1,077,361	$1,192,724	$1,199,559	$1,246,528
Gross Profit	232,173	272,340	283,967	312,132
Net Income	34,657	46,273	57,146	55,728
Per share of common stock:				
Earnings	.44	.59	.74	.73
Dividends*	.227	.253	.253	.253
Market Price Range:				
Low	21⅛	21⅝	23⅞	25⅝
High	24⅛	28⅜	28	35⅝

*Dividends on preferred series B stock were $.33 in each quarter during 1985.

10. Supplemental Information for Changes in Financial Position

The Consolidated Statements of Changes in Financial Position on page 39 have been prepared on a cash basis. The following analyzes the increases (decreases) in the components of working capital and certain elements of the Statements:

Year Ended December 31	1986	1985	1984
Cash (including time deposits and short-term investments)	$ (11,327)	$ 18,734	$(20,839)
Accounts receivable	54,298	60,528	82,686
Inventories	39,525	4,306	20,989
Other current assets	36,240	13,437	432
Debt payable within one year	(38,694)	91,740	(76,438)
Accounts and drafts payable	(110,409)	(40,445)	8,531
Income taxes	(22,143)	6,025	7,024
Other current liabilities	(128,910)	18,700	(35,726)
(Decrease) increase in working capital	$(181,420)	$173,025	$(13,341)

Division operating income as shown in the Statements less other income and expenses not allocable to divisions and income taxes appearing on page 32 constitutes the net income of the Company.

11. Acquisitions and Divestitures

In December 1986, the Company acquired the Meadow Gold dairies for approximately $315,000 in cash. Other acquisitions during 1986 include three pasta operations, a dehydrated soup and pasta manufacturer, a snacks operation, a producer of clam products, a substitute cheese operation, two wallcovering distributors, and an industrial resins operation. The cost of these acquisitions was approximately $241,000. The acquisitions have been accounted for as purchases, and the excess of cost over fair value of net tangible assets acquired is being amortized on a straight-line basis over 40 years.

Acquisitions during 1985 include the Crown and Sunworthy wallcovering operations, two pasta operations, a dairy operation and a bakery operation in West Germany. Acquisitions during 1984 include a pasta operation, three dairy operations, the remaining interest in a snacks operation in Spain and a rigid film products operation in Scotland.

During 1986, the Company divested its Drake Bakery operations and four other operations for approximately $209,000 in cash and other assets.

The operating results of 1986 acquisitions are included in the Consolidated Financial Statements from the dates acquired. Pro forma net income and per share amounts have not been presented as they would not vary materially from the reported amounts. However, the Company's 1986 and 1985 net sales would have increased approximately $1.1 billion had the 1986 acquisitions and divestitures been effected at the beginning of each year.

Report of Management

The management of Borden, Inc. is responsible for the preparation and the integrity of all information included in this report. The financial statements which necessarily include amounts based upon the judgements of management, have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied.

The Company, in order to meet its continuing responsibility to provide accurate financial information to its shareholders, has established and supports internal accounting control systems which are designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorizations and that those transactions are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. The Company's internal accounting control system is regularly reviewed for effectiveness, monitored by an internal audit department and implemented by well trained and qualified personnel. In addition, the Company has distributed to all key employees its policies for conducting business affairs lawfully and in an ethical manner.

Management recognizes that no internal accounting control system that properly weighs benefits against costs will preclude absolutely all errors and irregularities. It believes, however, that the Company's internal accounting control system provides reasonable assurance that any material errors and irregularities are prevented or would be detected and corrected within a timely period by employees in the normal course of performing their assigned duties.

The Board of Directors, through its Audit Committee consisting of non-employee directors, meets periodically with management, the Company's internal auditors and its independent accountants to discuss audit and financial reporting matters. Both the independent accountants and the Company's internal auditors have free access to the Audit Committee and Board of Directors, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

R. J. Ventres
R. J. Ventres
Chairman and
Chief Executive Officer

L. O. Doza
L. O. Doza
Senior Vice President and
Chief Financial Officer

Report of Independent Accountants

Price Waterhouse 180 East Broad Street
Columbus, OH 43215

January 27, 1987

Board of Directors and
Shareholders of Borden, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Borden, Inc. and its subsidiaries at December 31, 1986 and 1985, the results of their operations and the changes in financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Executive Offices
Borden, Inc.
277 Park Avenue
New York, New York 10172
Telephone (212) 573-4000

Administrative Headquarters
180 East Broad Street
Columbus, Ohio 43215
Telephone (614) 225-4000

Annual Meeting
The Annual Meeting will be held on Thursday, April 23, 1987, beginning at 11:00 a.m. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey 08822

Independent Accountants
Price Waterhouse
180 East Broad Street
Columbus, Ohio 43215

Transfer Agent, Registrar, & Dividend Disbursing Agent
The Bank of New York
90 Washington Street
New York, New York 10015

Dividend Reinvestment Plan
A dividend reinvestment plan is available to Borden shareholders. Quarterly common stock dividends are automatically reinvested in Borden common stock, and optional cash investments may be made for the purchase of additional shares. No service fees or commissions are assessed for shares purchased under this program. For more information, write:

The Bank of New York
P.O. Box 11002
Church Street Station
New York, New York 10277

Debenture Trustees
4⅜% Sinking Fund Debentures
The Chase Manhattan Bank, N.A.
New York, New York 10081

5¾% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
New York, New York 10015

8½% Sinking Fund Debentures
Bank of America, N.T.&S.A.
San Francisco, California 94137

8⅜% Sinking Fund Debentures
The First National Bank of Chicago
Chicago, Illinois 60670

Exchange Listings
Common Stock (Ticker Symbol-BN)
New York Stock Exchange
The Common Stock is currently listed on exchanges in Basel, Geneva, Lausanne and Zurich, Switzerland.

New York Stock Exchange
4⅜% Sinking Fund Debentures, due 1991
5¾% Sinking Fund Debentures, due 1997
8½% Sinking Fund Debentures, due 2004
8⅜% Sinking Fund Debentures, due 2016

Date and State of Incorporation
April 24, 1899–New Jersey

Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.

Written requests should be directed to:
Borden, Inc.
Director, Investor Relations
277 Park Avenue
New York, New York 10172

BORDEN

BORDEN, INC. 277 PARK AVENUE NEW YORK, N.Y. 10172